



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**THE IMPACT OF MIDDLE-CLASS CONSUMPTION ON  
DEMOCRATIZATION IN NORTHEAST ASIA**

by

Marc E. Marmino

March 2016

Thesis Advisor:

Naazneen Barma

Second Reader:

Michael Glosny

**Approved for public release; distribution is unlimited**

THIS PAGE INTENTIONALLY LEFT BLANK

<b>REPORT DOCUMENTATION PAGE</b>			<i>Form Approved OMB No. 0704-0188</i>	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instruction, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0188) Washington DC 20503.				
<b>1. AGENCY USE ONLY</b> (Leave blank)	<b>2. REPORT DATE</b> March 2016	<b>3. REPORT TYPE AND DATES COVERED</b> Master's thesis		
<b>4. TITLE AND SUBTITLE</b> THE IMPACT OF MIDDLE-CLASS CONSUMPTION ON DEMOCRATIZATION IN NORTHEAST ASIA			<b>5. FUNDING NUMBERS</b>	
<b>6. AUTHOR(S)</b> Marc E. Marmino				
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> Naval Postgraduate School Monterey, CA 93943-5000			<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>	
<b>9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b> N/A			<b>10. SPONSORING / MONITORING AGENCY REPORT NUMBER</b>	
<b>11. SUPPLEMENTARY NOTES</b> The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol number ____N/A____.				
<b>12a. DISTRIBUTION / AVAILABILITY STATEMENT</b> Approved for public release; distribution is unlimited			<b>12b. DISTRIBUTION CODE</b>	
<b>13. ABSTRACT (maximum 200 words)</b>  Despite four decades of astonishing economic growth, China's authoritarian government remains firmly entrenched in power. This fact challenges modernization theory, which anticipates that as countries become wealthier they will also become more democratic. This thesis proposes that middle-class consumption is a missing variable in the causal chain for democratization in Northeast Asian countries under authoritarian control. The study examines the effects of consumption in a cross-country comparison of South Korea and Taiwan during the years immediately prior to their respective democratizations. South Korea's middle-class consumption patterns evolved after decades of rapid economic growth, and state-induced wage pressure made the aspirational middle-class lifestyle unaffordable to lower middle-class Koreans. This consumption disparity caused the structurally disadvantaged working-class Koreans to join national protests that ultimately ushered in democracy. Examining modern China, the study finds a similar consumption disparity among the middle classes resulting from income inequality and a mobility-restraining household registration system. There exists a key political tension around structurally disadvantaged Chinese migrant workers earning lower wages and lacking welfare mechanisms afforded to urban residents under the <i>hukou</i> system. With the size of China's lower middle class expected to sharply expand over the next decade, the tension around consumption could act as a catalyst for middle-class led democratization.				
<b>14. SUBJECT TERMS</b> China, Chinese, South Korea, ROK, Taiwan, ROC, middle-class, democratization, modernization, consumption, political economy, authoritarian, domestic, identity, government, Chinese Communist Party, CCP, development			<b>15. NUMBER OF PAGES</b> 117	
			<b>16. PRICE CODE</b>	
<b>17. SECURITY CLASSIFICATION OF REPORT</b> Unclassified	<b>18. SECURITY CLASSIFICATION OF THIS PAGE</b> Unclassified	<b>19. SECURITY CLASSIFICATION OF ABSTRACT</b> Unclassified	<b>20. LIMITATION OF ABSTRACT</b> UU	

NSN 7540-01-280-5500

Standard Form 298 (Rev. 2-89)  
Prescribed by ANSI Std. Z39-18

THIS PAGE INTENTIONALLY LEFT BLANK

**Approved for public release; distribution is unlimited**

**THE IMPACT OF MIDDLE-CLASS CONSUMPTION ON  
DEMOCRATIZATION IN NORTHEAST ASIA**

Marc E. Marmino  
Captain, United States Air Force  
B.S., United States Air Force Academy, 2007

Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES  
(FAR EAST, SOUTHEAST ASIA, THE PACIFIC)**

from the

**NAVAL POSTGRADUATE SCHOOL  
March 2016**

Approved by: Naazneen Barma  
Thesis Advisor

Michael Glosny  
Second Reader

Mohammed Hafez  
Chair, Department of National Security Affairs

THIS PAGE INTENTIONALLY LEFT BLANK

## ABSTRACT

Despite four decades of astonishing economic growth, China's authoritarian government remains firmly entrenched in power. This fact challenges modernization theory, which anticipates that as countries become wealthier they will also become more democratic. This thesis proposes that middle-class consumption is a missing variable in the causal chain for democratization in Northeast Asian countries under authoritarian control. The study examines the effects of consumption in a cross-country comparison of South Korea and Taiwan during the years immediately prior to their respective democratizations. South Korea's middle-class consumption patterns evolved after decades of rapid economic growth, and state-induced wage pressure made the aspirational middle-class lifestyle unaffordable to lower middle-class Koreans. This consumption disparity caused the structurally disadvantaged working-class Koreans to join national protests that ultimately ushered in democracy. Examining modern China, the study finds a similar consumption disparity among the middle classes resulting from income inequality and a mobility-restraining household registration system. There exists a key political tension around structurally disadvantaged Chinese migrant workers earning lower wages and lacking welfare mechanisms afforded to urban residents under the *hukou* system. With the size of China's lower middle class expected to sharply expand over the next decade, the tension around consumption could act as a catalyst for middle-class led democratization.

THIS PAGE INTENTIONALLY LEFT BLANK



## TABLE OF CONTENTS

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>A.</b>	<b>QUESTION AND ARGUMENT.....</b>	<b>1</b>
<b>B.</b>	<b>SIGNIFICANCE OF THE RESEARCH QUESTION.....</b>	<b>2</b>
<b>C.</b>	<b>VARIABLES AND POTENTIAL EXPLANATIONS .....</b>	<b>3</b>
<b>D.</b>	<b>RESEARCH DESIGN.....</b>	<b>4</b>
<b>E.</b>	<b>MAIN FINDINGS AND ROADMAP .....</b>	<b>5</b>
<b>II.</b>	<b>LITERATURE REVIEW .....</b>	<b>7</b>
<b>A.</b>	<b>OVERVIEW.....</b>	<b>7</b>
<b>B.</b>	<b>MODERNIZATION THEORY.....</b>	<b>7</b>
<b>C.</b>	<b>CONSUMPTION THEORY.....</b>	<b>13</b>
<b>D.</b>	<b>CHINA’S MIDDLE CLASS .....</b>	<b>14</b>
<b>E.</b>	<b>POLITICAL ECONOMY OF DEMOCRATIC TRANSITIONS .....</b>	<b>20</b>
<b>III.</b>	<b>KOREA AND TAIWAN .....</b>	<b>23</b>
<b>A.</b>	<b>INTRODUCTION.....</b>	<b>23</b>
<b>B.</b>	<b>KOREA.....</b>	<b>24</b>
1.	Economic Causal Factors for Democratization .....	25
2.	Political Causal Factors of Democratization .....	29
3.	South Korea’s Middle Class.....	34
4.	Middle-Class Consumption.....	37
<b>C.</b>	<b>TAIWAN.....</b>	<b>42</b>
1.	American Patronage .....	43
2.	Soft Authoritarianism and Export-Oriented Growth .....	45
3.	Intervening Variables for Democratization.....	48
4.	Taiwan’s Middle Class .....	49
5.	CONCLUSION .....	50
<b>D.</b>	<b>COUNTRY COMPARISON: KOREA AND TAIWAN.....</b>	<b>50</b>
<b>IV.</b>	<b>CHINA .....</b>	<b>53</b>
<b>A.</b>	<b>INTRODUCTION.....</b>	<b>53</b>
<b>B.</b>	<b>REFORM AND ECONOMIC RISE.....</b>	<b>53</b>
<b>C.</b>	<b>POLITICAL TENSIONS: MAJOR FAULT LINES .....</b>	<b>56</b>
1.	Suppression of Democratic Starts: Tiananmen .....	57
2.	Inequality .....	59
3.	Party Corruption .....	60
4.	Residency .....	61

5.	Media Control .....	63
6.	Welfare.....	64
7.	Environmental Issues .....	65
D.	CONSUMPTION IN MAO-ERA CHINA.....	66
E.	CONSUMPTION IN POST-MAO CHINA.....	68
F.	CHINA’S RISING MIDDLE CLASS .....	70
1.	Attitudes Toward Political Change .....	71
2.	Success: Money And Social Status .....	72
3.	Aspirational Lifestyles.....	73
G.	IMPACT OF MIDDLE-CLASS CONSUMPTION.....	75
H.	POLITICAL INACTION AMONG CHINA’S MIDDLE CLASS.....	80
1.	Consumerism.....	82
2.	Crisis Intervention .....	83
3.	Appeasing the Wealthy.....	84
I.	FUTURE PROSPECTS OF MIDDLE-CLASS DEMOCRATIZATION .....	85
J.	CONCLUSION .....	87
V.	CONCLUSION .....	89
	LIST OF REFERENCES.....	95
	INITIAL DISTRIBUTION LIST .....	101

## LIST OF FIGURES

Figure 1.	ROK Consumption: 1982–1987 .....	40
Figure 2.	ROK Savings: 1982–1987 .....	41
Figure 3.	Economic Developments in Taiwan: 1982–87 .....	49
Figure 4.	China’s Savings: 2009–2013 .....	77
Figure 5.	China’s Consumption: 2009–2013 .....	78
Figure 6.	China’s 2022 Projected Income Segments .....	80

THIS PAGE INTENTIONALLY LEFT BLANK

## **LIST OF ACRONYMS AND ABBREVIATIONS**

CCP	Chinese Communist Party
DPRK	Democratic People's Republic of Korea
EOI	Export Oriented Industrialization
EPB	Economic Planning Board
KMT	Kuomintang
ISI	Import Substitution Industrialization
PRC	People's Republic of China
ROC	Republic of China
ROK	Republic of Korea

THIS PAGE INTENTIONALLY LEFT BLANK

## **ACKNOWLEDGMENTS**

I would first like to thank my thesis advisors, Naazneen Barma and Michael Glosny, for sharing their wisdom and guidance throughout this process. As my professors at NPS, both of you challenged my paradigms on Asia and always inspired me through your effective teaching styles. As my advisors, you motivated me to stay true to conviction and continually improve this study, and I am so grateful for your dedication and assistance. I would also like to thank the entire National Security Affairs department for shaping my understanding of international relations and the Pacific region. Most importantly, I would like to express my love and gratitude to my wife, Beth, and my children, Olivia and Roman. You are God's greatest gift, and I treasure you.

THIS PAGE INTENTIONALLY LEFT BLANK



## I. INTRODUCTION

### A. QUESTION AND ARGUMENT

Despite several decades of sustained economic growth, China has neither democratized nor undergone political reform away from its authoritarian government. An extensive literature review, included in chapter two of this study, suggests that more variables must be examined in order to explain China's peculiar lack of political reform. Northeast Asian countries that experienced similar economic progression under authoritarian conditions, such as South Korea and Taiwan, democratized after establishing robust middle classes. Shifting their consumption profiles from basic necessities to consumer durables and luxury items prior to political reform, South Korea and Taiwan's middle classes revealed consumption as an understudied yet worthy variable to consider in China's democratization process. What are the effects of middle-class consumption patterns on democratization in northeast Asian countries under authoritarian control? Will the evolving consumption patterns within China's emerging middle class affect the Chinese Communist Party (CCP), and do the consumption patterns of South Korea and Taiwan prior to their democratic transition offer insight for China? As the next wave of consumers ascends within the Middle Kingdom, these consumers' material desires, spending priorities, and savings rates tell a larger story about the demographic's satisfaction with the current political order than simple income levels alone. China's middle class was merely 15% of the overall population in 2000, but the proportion of this economic stratum grew to 23% by 2012.<sup>1</sup> Future projections indicate that China's middle class could more than double in size by the year 2025.<sup>2</sup>

Under the expectations of modernization theory, a growing middle class in countries that experience economic growth under authoritarian regimes will eventually demand greater political liberties from its government. Thus, it is important to assess if

---

<sup>1</sup> Jie Chen, *A Middle-Class Without Democracy: Economic Growth and the Prospects for Democratization in China* (New York: Oxford University Press, 2013), 2.

<sup>2</sup> Dominic Barton, Yougang Chen, and Amy Jin, "Mapping China's Middle-Class," *McKinsey Quarterly* (June 2013): 3.

certain consumption behavior in a growing middle class under authoritarian control reveals increased demand for political reform. If consumption patterns are revealed through historical examples of democratization within the same region, then this rapidly growing segment of China's society could create a new impetus for democratization over the next decade. This study compares China's recent middle-class consumption patterns to middle-class consumption patterns of two countries in Northeast Asia that democratized from formerly autocratic governance. South Korea and Taiwan's transitions to democracy offer regional comparisons to examine the relationship between consumption behavior and democratization. First, the study examines the political economies and consumption of Korea and Taiwan's middle classes prior to their respective periods of democratic transition. This data is then compared to recent consumption patterns of China's rising middle class. The goal of the comparison is to test if rising middle-class consumption has a determinant effect on the demand for political reform. The thesis also examines the degree to which other intervening political and economic variables acted as catalysts for democracy in the ROK and Taiwan. Overall the thesis illuminates new explanatory factors about the lack of democratization in China.

## **B. SIGNIFICANCE OF THE RESEARCH QUESTION**

Modernization theory suggests that the increased demands for political accountability from a rising middle class will be the unraveling mechanism of authoritarian regimes. Yet the Chinese Communist Party remains firmly intact following more than three decades of blistering economic success initiated by Deng Xiaoping's market-oriented economic reforms. Scholars point out that the "Chinese regime has severed the economic freedom of capitalism from the political liberties of democracy, turning modernization theory on its head."<sup>3</sup> The first wave of post-reform middle-class Chinese comfortably assumed their economic pedestals without posing a sustained challenge against their illiberal governing regime. Despite increased wealth and exposure to more liberal political economies abroad, China's first wave of middle-class citizens appeared content without demanding greater political freedoms from the CCP. For a

---

<sup>3</sup> Naazneen Barma and Ely Ratner, "China's Illiberal Challenge," *Democracy: A Journal of Ideas* 2 (Fall 2006): 62.

myriad of reasons, greater wealth and international exposure did not cause this fortunate group to petition the CCP for liberal reforms. To be sure, the Party's repression apparatus has successfully stifled most democratic movements before they could gain momentum. Nevertheless, it remains critical to discover more about the Chinese middle class and its potential to push for democratization in the future. Cheng Li wrote "a better informed and more comprehensive understanding of the Chinese middle class, from its basic composition to its values and worldviews—from its idiosyncratic characteristics to its evolving political roles in China—will help to broaden the policy options available to the United States and other countries in dealing with this emerging global power."<sup>4</sup> With Li's words in mind, this thesis endeavors to illuminate the effect of middle-class consumption patterns on democratization and augment the existing explanations about China's peculiar lack of political liberation. An increasingly market-based and liberal economy remains an illiberal political system, and more variables must be explored to better understand the unique nature of China's authoritarian capitalism.

### **C. VARIABLES AND POTENTIAL EXPLANATIONS**

The existing literature on China's middle class partially explains the paradoxical nature of this economic stratum's failure to push for democracy. Yet, as the following chapter demonstrates, gaps remain in the explanation behind China's enduring totalitarian system. This study examines the patterns of middle-class consumption in increasingly wealthy populations under authoritarian control and seeks to identify the causal effect of these evolving consumption patterns on the demand for democratization in these countries. The independent variable in this study is the economic behavior within each country's middle class. For this study, the important dimensions of economic behavior are consumption levels, spending patterns, and savings rates among each country's middle-class citizens. This study's dependent variable is political change toward democratic governance. The intervening variables will include each country's middle-class size and income equality. These factors, as highlighted by the structuralist logic embedded within modernization theory, create demand for political reform in

---

<sup>4</sup> Cheng Li, *China's Emerging Middle-Class: Beyond Economic Transformation* (Washington, DC: Brookings Institution Press, 2010), 3.

autocratically governed societies. This thesis will identify the relationships and causal mechanisms connecting these variables to better assess the complex nature of China's enduring authoritarian governance, in light of democratic transitions in neighboring countries. It will also examine how the authoritarian government's response to democratic activism overpowers a growing, wealthier, and more-educated middle class.

At the nexus of consumption theory and structural modernization theory, the study will identify the unique characteristics of the growing Chinese middle class that cause its idleness toward reform. One potential hypothesis to explain the inaction toward political change among the growing middle class is a positive perception of the Party's contributions to higher living standards. In contrast to the pre-reform era, the recent decades of higher living standards enjoyed throughout the country are attributed favorably to the CCP.<sup>5</sup> Next, many in this first wave of the middle-class citizens still remember the tumultuous period of the Cultural Revolution; as such, they fear any potential "chaos" resulting from a regime change.<sup>6</sup> Furthermore, scholars note the initial post-reform middle-class citizens were Party members themselves, and many of them attribute their comparative affluence among the population to their Party affiliation. While these observations are grim for the prospects of modernization theory, the economic dynamics inside of China are continuing to evolve in ways that could still upset the political order.

#### **D. RESEARCH DESIGN**

This thesis uses comparative case studies and analysis of consumption behaviors that determine the impact upon political stability. It examines the consumption behavior of the Chinese ascending from poverty into the lower middle class. Under modernization theory, rising per-capita income has a positive statistical relationship with democratization.<sup>7</sup> As such, this study researches spending and savings levels in Korea

---

<sup>5</sup> Alice Ekman, "China's Emerging Middle-Class: What Political Impact?," *Asie.Visions* 76 (June 2015): 9.

<sup>6</sup> *Ibid.*, 11.

<sup>7</sup> Carles Boix, "Democracy, Development, and the International System," *American Political Science Review* (November 2011): 30.

and Taiwan's rising middle class across the five-year period prior to their respective democratic reform movements (1982–1986). In addition to long- and short-term savings rates, the research efforts focus on both necessity and leisure spending as a percentage of overall income. Any significant similarities and correlations among the two countries' data are identified. Next, the same savings and spending data is scrutinized for China's rising middle class during the most recent five-year period (2009–2013). In order to ensure an accurate basis for comparison, currency amounts are adjusted for inflation and government directed monetary policies. The majority of the source data for this study is derived from the World Bank's economic data archives, consulting companies' survey data, and various academics' field research. Comparing similar countries provides an appropriate baseline to discover causal relationships between economic variables and their resulting political outcomes. For every year of the respective timespans, the case study comparisons also examines each country's middle class population size and income equality as measured by the Gini coefficient. The dependent variable of political change toward democratic governance encompasses societal movements (i.e. protests) that led to the replacement of authoritarian institutions with democratic ones.

Establishing the research framework in this manner allows consumption data to be isolated for comparison in this cross-national study. The three co-regional countries were selected for this study because of their shared history of rapid economic growth and authoritarian governance. To be sure, there are many socioeconomic and political differences between these three countries that could present undesirable deviations in the data comparison. Nevertheless, a structured case comparative approach through this design produces the desired research outcomes.

## **E. MAIN FINDINGS AND ROADMAP**

In terms of results, this thesis identifies parallels in the ROK case study that apply to China's current political economy. The study reveals a consumption disparity among middle-class Koreans that caused them to agitate for a more inclusive political order. Using the South Korean model, the study found a similar consumption disparity in modern China as a result of income inequality and its household registration system.

Finally, the study offers several explanations and future prospects for middle-class efforts toward democratization in China.

The chapters that follow execute the research design of this study. Chapter two consists of a literature review that includes the significant works on the theories of consumption and modernization. The review also surveys political economy literature around the democratic transitions in Korea and Taiwan, as well as scholarly works that further characterize China's middle class. The third chapter contains the comparative case studies of Korea and Taiwan during their pre-democratic periods, describing their consumption patterns in the run-up to democratization and how the various intervening variables facilitated the move to democracy in both countries. The findings of this chapter serve as a template for comparison with China's case study. Chapter four examines China's recent middle-class consumption data and how intervening variables appear to facilitate or prevent democratic change, as well as identifies similarities with Korea and Taiwan. The final chapter will conclude the study and provide key findings from the comparison.

## **II. LITERATURE REVIEW**

### **A. OVERVIEW**

This study examines the link between consumption behavior and democratization among middle-class Koreans, Taiwanese, and Chinese at different periods throughout the last three decades. Modernization theory provides a causal lens to examine and predict China's middle-class behavior. The authors of modernization theory offer several causal factors behind democratic transitions throughout history, including the democratization of Korea and Taiwan. The theoretical approaches reveal social and economic conditions that either increase pressure against authoritarian governments or strengthen their hold on power. The "life cycle" theory of consumption theory provided a utility function to explain spending and saving behavior throughout a rational individual's lifetime. By employing this theory, one can foresee an individual's economic decisions, a country's savings rates, and even the consequences of demographic shifts upon overall national wealth.<sup>8</sup> Consumption theory, as applied to the Chinese consumers, reveals the population's perspective of future stability. Finally, the review will investigate contemporary works on China's middle class and its inconsistency with the theoretical expectations of democratization. Through examining the enduring theories and contemporary explanations behind the middle class' behavior, this review will identify gaps that merit further investigation toward answering the research question posed in this proposal. The review will also highlight the relationship between middle-class consumption and democratization as the foundation for assessing this study's hypothesis.

### **B. MODERNIZATION THEORY**

To date, China defies the accepted logic that a growing middle class under authoritarian control will push for greater social reforms and political participation. In order to understand the incongruities between a theoretical modernization pathway and China's combination of liberal markets and illiberal politics, one must investigate the

---

<sup>8</sup> Angus Deaton, "Franco Modigliani and the Life Cycle Theory of Consumption" (paper presented at the *Convegno Internazionale Franco Modigliani, Accademia Nazionale dei Lincei*, Rome, February 17–18, 2005), 1.

literature regarding paths to democracy. Seminal works on democratic modernization and the role of the middle class in democratization include the scholarship of Samuel Huntington, Seymour Lipset, and Barrington Moore. Assessing the work of these early theorists through the hindsight of several decades, Barbara Geddes' works synthesized the significant theoretical evaluations to posit a more contemporary understanding of democratization.

In his study of democratization entitled *The Third Wave*, Samuel Huntington focused on the impact economic development had on spurring democratic transitions from 1974 to 1990.<sup>9</sup> Huntington found that although economic factors were not determinative, they contributed significantly to democratization.<sup>10</sup> In short, Huntington distilled three specific ways in which countries democratized during this time period. He first noted, "Oil price hikes in some countries and Marxist-Leninist constraints in others created economic downturns that weakened the authoritarian regimes."<sup>11</sup> Huntington then found that several of the third-wave democracies reached high levels of economic development, which allowed for an eased transition to democracy.<sup>12</sup> Finally, Huntington noted the few cases where "extremely rapid economic growth destabilized authoritarian regimes, forcing them either to liberalize or to intensify repression."<sup>13</sup> The theory laid out in *The Third Wave* demonstrated the effect that a burgeoning middle class, through rapid economic development and late industrialization, can have on overthrowing authoritarian regimes. The crux of his work focused on the authoritarian government's response to democratic uprisings. Of the three potential paths identified, China fits into the case of exceptionally rapid economic development. While swift economic growth contributed to liberalizing the political orders of Korea and Taiwan, similar increases in China's wealth have yet to generate democracy.

---

<sup>9</sup> Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma, 1992), 5.

<sup>10</sup> Huntington, *The Third Wave*, 59.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.



Seymour Lipset's modernization theory examined how economic development, financial security, and increased education levels created social changes within the lower income strata led to sustained democracies.<sup>14</sup> His structuralist work on modernization theory examined countries of varying levels of democracy across Europe and Latin America. Lipset examined their average wealth, level of industrialization and urbanization, and education while classifying their political stability.<sup>15</sup> Through his cross-national analysis, Lipset determined the factors that encouraged robust democracies to emerge and sustain. Simply stated, he found that greater wealth in societies coincided with higher education levels, larger middle classes, and better social equality. Additionally, he asserted that political cleavages are important to establishing a vibrant, thriving democracy. Lipset found that "the more well-to-do and better educated a man is, the more likely he is to belong to voluntary organization, the propensity to form such groups seems to be a function of the level of income and opportunities for leisure within given nations."<sup>16</sup> This statement underscores a key parallel with modern China's rising middle class: increased levels of income and leisure time.

Given Lipset's assertion, one should also see evidence of more voluntary organizations forming within China. Lipset's research also notably found that "the higher one's education, the more likely one is to believe in democratic values and support democratic practices."<sup>17</sup> China is experiencing a historically high level of education among its population today, and this represents another condition making China's case ripe for democratization. Finally, he noted the importance of access to growing modern communications and transportation to informing the impoverished portions of a society about better ways of life and improving their conditions.<sup>18</sup> Government censorship efforts aside, China's rural-poor are increasingly exposed to modern communications technology and improved transportation options. China's democratic reform prospects appear strong

---

<sup>14</sup> Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (New York: Doubleday & Company, 1960), 45.

<sup>15</sup> Lipset, *Political Man*, 32.

<sup>16</sup> Ibid., 53.

<sup>17</sup> Ibid., 40.

<sup>18</sup> Ibid., 48.

through the lens of Lipset's findings, yet the Party's authoritarian grip on power remains firm.

Barrington Moore applied structuralist theory in his study of countries along one of three historical paths from preindustrial to modern states, focusing on the arrangements of power within societies that propelled countries toward democracy.<sup>19</sup> Noting the example of China, Moore showed how the communist movements relied heavily upon the peasant majority.<sup>20</sup> The author revealed that China's agrarian bureaucracy restrained the forces of commercial and industrial modernization. This weakened the urban class and maintained a massive, immobile peasant class.<sup>21</sup> Moore concluded that in all cases "the way in which the landed upper classes and the peasants reacted to the challenge of commercial agriculture were decisive factors in determining the political outcome."<sup>22</sup> Moore's work examined the structure, organization, and strength of both the elite and middle classes. Different combinations of collaboration or disunity between these two classes produced a variety of outcomes for the peasant class throughout history. Among these combinations, Moore derived five main conditions for democratization. The first condition was the "development of a balance to avoid too strong a crown or too independent a landed aristocracy."<sup>23</sup> The next requirement involved societies' selecting the proper method of commercial agriculture. Conditions three and four encompassed "the weakening of the landed aristocracy and the prevention of an aristocratic-bourgeois coalition against the peasants and workers."<sup>24</sup> The final prerequisite was a revolutionary break with the past. Through the lens of Moore's work, one observes how the behavior of the middle class in conjunction with the aristocracy ultimately steers a country's future political outcomes. The first wave of Chinese who prospered in the aftermath of Deng's reforms is now considered China's landed

---

<sup>19</sup> Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 2010), 413.

<sup>20</sup> Moore, *Social Origins of Dictatorship*, xvi.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid., xvii.

<sup>23</sup> Ibid., 430.

<sup>24</sup> Ibid., 431.

aristocracy. Moore's work suggested that this aristocracy's potential to form a coalition with the next wave of the middle class would have major implications upon China's future political stability. Thus, if the swelling ranks of China's bourgeois reject such a coalition with the elite, democratization efforts could gain new traction.

In a 1999 article in the *Annual Review of Political Science*, Barbara Geddes took a renewed look at the body of literature and offered a current assessment of democratization. She asked, "what have we learned about late-twentieth-century regime transition and democratization?"<sup>25</sup> To answer this question, the author compiled much of the contemporary work that tested causal mechanisms proposed by the early scholars of modernization theory. Geddes then sifted through many of the common arguments related to democratic transitions and foiled several popular causal elements. The variables of elite-initiated movements, popular protests, pacts between elites, internal strength of the outgoing regime, and amnesties were all shown to have indeterminate catalytic effects toward democratization.<sup>26</sup> Most importantly, she distilled elements of the theory that maintained valid support over the years. She confirmed, for instance, that a positive relationship between economic development and democracy still remained throughout the quarter-century.<sup>27</sup> Next, she noted the enduring validity of earlier findings by Larry Diamond and Juan Linz. Citing Diamond and Linz, Geddes affirmed, "poor economic performance increases the likelihood of authoritarian breakdown, as it increases democratic breakdown and defeat of incumbents in stable democracies."<sup>28</sup> Alternatively stated, a correlation remains between regime transitions and low economic growth or economic crisis. In a more recent piece, Geddes similarly tested the validity of several studies on the causal mechanisms of democratization and found them to be similarly unpersuasive. Highly educated populations, income inequality, and capital mobility were

---

<sup>25</sup> Barbara Geddes, "What Do We Know About Democratization After Twenty Years?" *Annual Review of Political Science* 2 (1999): 115.

<sup>26</sup> Geddes, "What Do We Know," 120.

<sup>27</sup> *Ibid.*, 119.

<sup>28</sup> *Ibid.*

all found to be inconsistent catalysts of democratization.<sup>29</sup> Geddes' works cleaned up the scholarship on democratic transitions by testing thirty years of authoritarian regime data against the subject's leading contemporary works. While she lamented that great effort yielded little additional theoretical understanding over the years, her refutation of several leading causal mechanisms in modernization theory lend to the importance of this thesis. Additional independent variables, such as middle-class consumption patterns prior to democratic transitions, should be tested for their potential to reveal more about the theory.

Other works noted the positive relationship between increased individual wealth and democratization. Larry Diamond asserted that economic growth correlates with rising social and education standards, which move societies further toward democratization.<sup>30</sup> When a country grows economically, its citizens typically generate new ideas about their societal structures and governance. As populations under authoritarian control become wealthier, they eventually press for democratization at a rate beyond economic growth. Diamond's observations adhere to several examples of successful democratic transitions. In addition to Diamond's work, Walt Whitman Rostow offered insights into the relationship of national wealth, consumption levels, and modernization. In *The Stages of Economic Growth*, Rostow described the final stage as the age of high mass-consumption.<sup>31</sup> Rostow observed that mature economies in this stage will move away from the consumption of basic items and towards mass consumption of consumer durables. As this consumption shift occurs, Rostow posited that populations desire a more egalitarian society and increasingly examine the factors that are affecting their political structures and societal values. Thus, increased societal wealth leads to increased consumption levels, which in turn leads to a greater desire for politically inclusive structures. Still, as Geddes noted of many other popular contemporary arguments, his work still fails to explain China's illiberal democracy.

---

<sup>29</sup> Barbara Geddes, "What Causes Democratization?" *Oxford Handbooks Online* (2009), 12, , doi: 10.1093/oxfordhb/9780199566020.003.0014.

<sup>30</sup> Larry Diamond, "The Coming Wave," *Journal of Democracy* 23, no.1 (2012): 5.

<sup>31</sup> Walt Whitman Rostow, *The Stages of Economic Growth; A Non-Communist Manifesto* (New York: Cambridge University Press, 1990), 74.

### C. CONSUMPTION THEORY

Franco Modigliani holds the most renowned academic work on consumption behavior throughout an individual's lifetime. Modigliani produced his "Life Cycle" Consumption Theory in the 1950s.<sup>32</sup> This enduring theory examined individual spending behaviors at various age levels, and their decisions to save and deplete assets based upon retirement expectations. The theory posited that individuals, regardless of income levels, rationally saved for retirement and crafted their consumption patterns to their individual needs at a given age.<sup>33</sup> Modigliani used a utility function to explain the economics of his model. Of the individual consumer, Modigliani noted "his utility is assumed to be a function of his own aggregate consumption in current and future periods ... the individual is then assumed to maximize his utility subject to the resources available to him, his resources being the sum of current and discounted future earnings over his lifetime and his current net worth."<sup>34</sup> A couple of major assumptions underpinned Modigliani's model, which ultimately made the theory vulnerable to a several critiques throughout subsequent decades. First, he assumed that "if an individual receives an additional dollar's worth of resources, he will allocate it to consumption at different times in the same proportion in which he had allocated his total resources prior to the addition."<sup>35</sup> Next, he assumed that an individual had no desire or expectation to leave inheritance. Given those assumptions, the study found that individuals' consumption in any given year of their life equaled the present value of their total assets accruing over the remainder of their lives.<sup>36</sup>

There are many implications to derive from Modigliani's theory. Angus Deaton noted that "this simple theory leads to important and non-obvious predictions about the economy as a whole, that national savings depends on the rate of growth of national income, not its level, and that the level of wealth in the economy bears a simple relation

---

<sup>32</sup> Albert Ando and Franco Modigliani, "The 'Life Cycle' Hypothesis of Saving: Aggregate Implications and Tests," *American Economic Review* 53 (1963): 55–84.

<sup>33</sup> Deaton, "Franco Modigliani," 1.

<sup>34</sup> Ando and Modigliani, "'Life Cycle' Hypothesis of Saving," 56.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid., 57.

to the length of retirement spans.”<sup>37</sup> In the case of China, Modigliani’s work offers explanations for individual consumption behavior. Consumption theory could identify Chinese perceptions about national welfare programs, future investments, and government stability. The theory can also model how demographic alterations will affect the country’s savings rate.<sup>38</sup> Consumption levels can also be integrated into other theories of how economic conditions drive political change. Modernization theory relies upon consumption and income levels to determine how countries democratize from authoritarian governance. In conjunction, these two theories provide the appropriate explanatory mechanism for political outcomes associated with China’s consumption data.

#### **D. CHINA’S MIDDLE CLASS**

As the theories of the previous sections demonstrated, China’s middle class requires further analysis to explain their relative idleness toward political reforms. While there is no universally accepted definition of the middle class, this study will classify the term based on the widely used metric of income range. To be sure, the veracity of these numbers can be challenged by the notion that Chinese earners often deceptively lower their reported incomes for the purpose of tax evasion.<sup>39</sup> Researchers also caution about the imperfection of this metric as based on “huge disparities in revenue and living costs between China’s regions.”<sup>40</sup> Some PRC scholars use an index of income, education, and occupation to overcome these disparities.<sup>41</sup> Still, this study’s focus upon consumption behavior ensures that income level is the most appropriate metric. In a series of surveys conducted over the last fifteen years by the Chinese Academy of Social Sciences (CASS), researchers standardized the middle-class income range between U.S. \$11,800 to \$17,700 per year.<sup>42</sup> Based upon this range, CASS surveys reveal that China’s middle class swelled

---

<sup>37</sup> Deaton, “Franco Modigliani,” 1.

<sup>38</sup> Ibid.

<sup>39</sup> Chen, *Middle-Class Without Democracy*, 35.

<sup>40</sup> Alice Ekman, “The Distinctive Features of China’s Middle-Classes,” *Asie.Visions* 69 (June 2014): 8.

<sup>41</sup> Li, *China’s Emerging Middle-Class*, 15.

<sup>42</sup> Ekman, “The Distinctive Features,” 8.

from 15% of the overall population in 2000, to 23% in 2012.<sup>43</sup> This section briefly chronicles the history of China's middle class, and highlights the work of major contributors to the subject along the way. For this overview, the Chinese middle class was examined in two time periods: Mao-Era (1949–1978) and Post-Mao reform era (1978–present). First, this section examines the Chinese middle class, or lack thereof, during Maoist China.

Scholars aptly note, “During the first decades of the People’s Republic of China, from 1949 to 1978, no middle-class population could emerge given the strict collectivist framework implemented nationwide.”<sup>44</sup> Upon assuming governing authority, the CCP successfully undertook several efforts to de-stratify social classes and adhere to an orthodox Marxist ideology.<sup>45</sup> Among these efforts, land reform stripped the Chinese of private property, and the nationalization of major industries eradicated the private economy.<sup>46</sup> By 1958, scholars concluded, “the economic foundations of class differentiation were almost completely eliminated from Chinese society.”<sup>47</sup> The CCP established the new economy in a manner that eliminated the possibility for a robust middle class to evolve.<sup>48</sup> Further, the Party structured labor through a system of work units, or *danwei*, which created dependency on the party-state and ceased occupational mobility.<sup>49</sup> While an insignificantly small “quasi-middle class” of managers and intellectuals existed during these first three decades of communist reign, this group was subjected to heavy persecution under an Anti-Rightist Campaign in 1957 and the Cultural Revolution in the late-1960s.<sup>50</sup> Beyond the lack of a social stratum meriting the label of “middle class,” consumption patterns during this Mao-Era were also homogenized as a

---

<sup>43</sup> Chen, *Middle-Class Without Democracy*, 2.

<sup>44</sup> Alice Ekman, “The Distinctive Features of China’s Middle-Classes,” *Asie.Visions* 69 (June 2014), 13.

<sup>45</sup> Chen, *Middle-Class Without Democracy*, 3.

<sup>46</sup> *Ibid.*, 46.

<sup>47</sup> *Ibid.*, 47.

<sup>48</sup> Li, *China’s Emerging Middle-Class*, 7.

<sup>49</sup> Chen, *Middle-Class Without Democracy*, 47.

<sup>50</sup> Li, *China’s Emerging Middle-Class*, 7.

result of redistribution, rationing, and criticisms of those living outside of the working class lifestyle.<sup>51</sup>

The modern Chinese middle class was born out of the economic overhaul during the post-Mao reform period (1978-present). Jie Chen's work further categorized the post-Mao period into three stages of privatization based upon CCP's major policy initiatives to liberalize the economy.<sup>52</sup> Chen noted, "The first stage (1978–1983) was marked by the official revival of private business."<sup>53</sup> In this stage, the constitution permitted small-scale private businesses to operate as a complement to the public economy. In the next stage of economic privatization (1984–1992), the Party allowed private enterprises employing more than eight individuals to operate.<sup>54</sup> While these first fifteen years of post-Mao economic reform gathered momentum for the Chinese middle class, the third stage (1993–present) truly accelerated the rise of private wealth. Following Deng Xiaoping's southern tour in 1992, the CCP officially endorsed China's transition to a socialist market economy.<sup>55</sup> Of significant note to the origins of this economic stratum, the CCP openly encouraged party officials to partake in private economy during this time period.<sup>56</sup> Chen showed that "by the mid-1990s [party-cadres and government officials] had become the largest group among private entrepreneurs."<sup>57</sup> Consequently, the majority of first wave Chinese middle class owed their fortunes to holding positions within the CCP at the right time. Social mobility also emerged during the period, and the Chinese increasingly chose their own jobs and weaned-off of their previous dependence on the party-state's *danwei*.<sup>58</sup> The Party overhauled State Owned Enterprises (SOEs) by reducing the once-

---

<sup>51</sup> Chen, *Middle-Class Without Democracy*, 49.

<sup>52</sup> Chen, *Middle-Class Without Democracy*, 50.

<sup>53</sup> Ibid.

<sup>54</sup> Ibid.

<sup>55</sup> David Goodman, "China's Coming Revolution," *Research Institute for the Study of Conflict and Terrorism*, 266 (December 1993): 3.

<sup>56</sup> Chen, *Middle-Class Without Democracy*, 50.

<sup>57</sup> Ibid., 51.

<sup>58</sup> Ibid., 52.



lucrative form of state-employment.<sup>59</sup> The benefit-laden “iron rice bowl” positions associated with SOEs lost their sense of security and became less desirable in comparison to the burgeoning private sector. In sum, Chinese laborers now faced an incentive structure that drove them to desire lucrative jobs, individual wealth, and modern economic consumption. The gradual reforms of the post-Mao era gave rise to a small middle class from the economic rubble of an agrarian-peasant society.

Cheng Li’s edited volume, *China’s Emerging Middle Class*, examines the sociopolitical ramifications of the modern Chinese middle class. Of this economic class, Li observed that “today a large number of Chinese citizens, especially in coastal cities, own private property and personal automobiles, have growing financial assets, and are able to take vacations abroad and send their children overseas for school.”<sup>60</sup> The author acknowledged that a good portion of the middle-class individuals owe their good-fortune to the party-state, but he also noted the existence of a significant portion of “self-made” middle-class citizens. Li wrote, “Such an economically aspirant population is a double-edged sword for the Chinese authorities ... aware of the fact that the middle class has pushed for democratization in other developing countries.”<sup>61</sup> Still, Li notes that most of the studies on the link between China’s middle class and democratization found the opposite relationship to exist. Instead of pushing back, the author observed that the “Chinese middle class has largely been a political ally of the authoritarian regime rather than a catalyst for democratic change.”<sup>62</sup>

In addition to confirming the alliance between the Party and the middle class, Li’s volume also included crucial insights about the middle class’ consumption. Zhou Xiaohong and Qin Chen noted that consumption is the main method used by middle-class Chinese to build their identity.<sup>63</sup> They highlighted the stratum’s recent consumption shift from durable goods (i.e., televisions and refrigerators) to buying houses, apartments and

---

<sup>59</sup> Ibid, 53.

<sup>60</sup> Li, *China’s Emerging Middle-Class*, 3.

<sup>61</sup> Ibid., 5.

<sup>62</sup> Ibid., 20.

<sup>63</sup> Ibid., 94.

vehicles.<sup>64</sup> Homes and cars in particulars enable the middle-class Chinese to garner social recognition. In other words, modern middle-class consumption is viewed as a welcomed distinction from the life prior to reform.<sup>65</sup> Zhou and Qin make a clear case for the social identity aspect behind recent middle-class consumption. These authors additionally note that “not only their values, but also their attitudes and behavioral patterns, are directly shaped by this status.”<sup>66</sup> Consumption can then be said to be one of the determinants of middle classes’ behavior; therefore, the case to examine this variable’s effect on democratization is even stronger.

Alice Ekman’s research on the features of China’s middle class revealed several facets of this social stratum; including their expectations, consumption, and saving behavior. Ekman also found that “Chinese middle-classes often seek to show their new class status through their living standards and consumptions practices.”<sup>67</sup> This relatively new economic class notably enjoys international travel, leisure opportunities, and entertainment.<sup>68</sup> In terms of perception, Ekman cited “Chinese middle-class households often share a strong feeling of instability ... in a context of economic transition and absence of rule of law, they anticipate further expenses of the household and extended family.”<sup>69</sup> Ekman further noted China’s underdeveloped social safety nets, increasing cost of medical care, homes, and advanced education.<sup>70</sup> This instability perception is critical to explaining the population’s high rate of household savings. In anticipation of hardships and uncertain future prospects, the population appears to be withholding consumption in favor of savings. Moreover, Ekman found that “current and former civil servants appear to constitute the core of the middle-class population in China.”<sup>71</sup> This large portion of the first-wave middle class attributes its relative affluence and stability to

---

<sup>64</sup> Ibid.

<sup>65</sup> Ibid., 95.

<sup>66</sup> Li, *China’s Emerging Middle-Class*, 95.

<sup>67</sup> Ekman, “The Distinctive Features,” 2.

<sup>68</sup> Ibid.

<sup>69</sup> Ibid.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid., 22.

the Chinese Communist Party, thus revealing a major explanatory factor behind the inaction toward democratic reform. Through interviews with Chinese households across several cities, Ekman concluded “for many Chinese households of the new middle class, priority goals are related to career advancement and overall prosperity of the household; desires for political participation are often secondary.”<sup>72</sup> Therefore, apathy toward the political order also contributes to the lack of push back against the entrenched authoritarian regime.

After Alice Ekman thoroughly characterized the Chinese middle class, she then inquired about the political impact of the next wave within this economic stratum. In her follow-on piece, the author determined that the new generation of middle-class Chinese is going to be better traveled, more exposed to the private sector, and less affiliated with the CCP.<sup>73</sup> Even with that insight, she concluded “China’s middle class is not the population group most inclined to change or question the current political.”<sup>74</sup> Instead, Ekman asserted that the countries’ population remains largely conservative and in favor of the political status quo.

Presently, China’s household savings rate is significantly higher than the international average. The international consulting firm McKinsey predicts, “By 2022, more than 75 percent of China’s urban consumers will earn 60,000 to 229,000 RMB (\$9000 to \$34,000) a year.”<sup>75</sup> The massive population of new middle-class earners is gaining more income at the same time that the CCP is encouraging a consumption economy to bloom. The confluence of these two events suggests that the household savings rates will diminish as the next wave spends more of their income on discretionary goods and services. With a consumption shift underway, the current works of scholars focused on China’s middle class could be augmented by a comparative case study analysis on the political impact of consumption behavior. Comparing former

---

<sup>72</sup> Ibid., 24.

<sup>73</sup> Ekman, “China’s Emerging Middle-Class,” 2.

<sup>74</sup> Ibid., 3.

<sup>75</sup> Ibid., 26.

authoritarian countries in the region, one could determine which consumption patterns create a tipping point for political pushback among middle-class individuals.

## **E. POLITICAL ECONOMY OF DEMOCRATIC TRANSITIONS**

Stephan Haggard and Robert Kaufman also examined the political economy of several democratic transitions.<sup>76</sup> Acknowledging where the theories of modernization fell short, Haggard and Kaufman showed how intellectual trends shifted away from the economic factors of democratic transitions during the 1980s.<sup>77</sup> The authors noted that modernization theory's correlation between burgeoning capitalism and democracy failed to account for enduring examples of 'successful authoritarian capitalism' in East Asia and Latin America.<sup>78</sup> To explain the disconnect between theoretical expectations and reality, the pair described the flexible nature of regimes confronted with the liberalizing-pressure of capitalism. The authors wrote, "Authoritarian governments able to avoid crises or adjust effectively were better positioned to resist pressures to leave office and maintained greater control over the timing and conditions of their exit."<sup>79</sup> With respect to adjusting the in the face of popular pressure for reform, the previously authoritarian governments in Taiwan and South Korea effectively suppressed dissident factions throughout their respective four-decade reigns. The CCP continues to effectively adjust through similar suppression efforts against China's rising number of popular protests.<sup>80</sup> Protests among the working-class amassed in South Korea just prior to its democratization movement; thus, the ROK will serve as an excellent model for comparing and forecasting China's current state in chapter four.

Haggard and Kaufman examined three main questions in their effort to build a more comprehensive look at the political economy of democratic transitions. First, the authors examined how "economic conditions affect the capacity of ruling elites to

---

<sup>76</sup> Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, NJ: Princeton University Press, 1995), 1.

<sup>77</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 4.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Alan Taylor, "Rising Protests in China," *Atlantic*, February 17, 2012, <http://www.theatlantic.com/infocus/2012/2/rising-protests-in-china/100247/>

determine the timing and nature of their withdrawal.”<sup>81</sup> In general, better economic conditions allowed successful repression of dissident factions. Next, they examined legacies of institutions on new democratic regime’s economic policymaking.<sup>82</sup> In the case of Korea, the institutional legacy of cronyism and intentionally suppressed wages eventually added necessary steam to the reform movement. Additionally, the authors analyzed “the conditions under which market-oriented reform and democracy can be reconciled and consolidated.”<sup>83</sup> This appeared most prominently in Taiwan, where the KMT spread the fruits of economic growth more equitably across all income strata. Haggard and Kaufman also acknowledged the existence of factors that conformed to modernization theory’s expectations about growing middle classes. The authors highlighted that “in East Asian newly industrialized countries ... economic development resulted in the emergence of more complex, literate, middle-class societies that demanded increased political participation.”<sup>84</sup> Finally, they broadly noted that, “economic crisis *did* appear to accelerate, if not cause the collapse of authoritarian regimes in a number of countries.”<sup>85</sup> The crisis variable provides a key indicator to examine China’s transition from industrialized growth to a more sustainable, consumption-based economy. Having reviewed the scholarship upon which this thesis builds and having identified critical gaps for this study, the thesis proceeds with the case studies of South Korea and Taiwan.

---

<sup>81</sup> Ibid., 4.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

<sup>84</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 25.

<sup>85</sup> Ibid., 26.

THIS PAGE INTENTIONALLY LEFT BLANK

### III. KOREA AND TAIWAN

#### A. INTRODUCTION

South Korea and Taiwan each survived precarious beginnings following the Second World War and eventually democratized after decades of deliberately designed economic growth. Along the path to export-led growth and pluralist governance, the two countries evolved under different political institutions.<sup>86</sup> Stephan Haggard extensively examined the political economy of Korea and Taiwan and found several similarities in their early days. He concluded that both countries faced “external constraints including political partition, a loss of major markets, and persistent balance-of-payments problems.”<sup>87</sup> Moreover, American aid overwhelmingly dictated the balance sheet of the fledgling Asian states.<sup>88</sup> Given dire domestic conditions and dependence upon U.S. patronage, these Newly Industrialized Countries (NICs) initially pursued an economic model of import substitution. Under structurally different institutional and political apparatuses, authoritarian leaders in the respective countries later steered toward the more lucrative model of export-oriented industrialization. The transition to democracy occurred in each country after comparable rapid economic growth, but their political economies and geopolitical history contain notable variations.

This chapter will describe how various intervening variables facilitated growth and democratization in Korea and Taiwan. Further, and core to the argument of this thesis, the chapter also examines the role of each country’s middle class in ending the reigns of authoritarian regimes and evaluates consumption as a potential causal element behind democratization. This section reveals that, as a result of government pressure to ensure competitively low wages on the working class, a consumption disparity existed between the structurally disadvantaged Korean lower-middle and middle classes. ROK consumption patterns evolved in years prior to the country’s democratic transition. As a result, the Korean middle-class lifestyle became more expensive and the structurally

---

<sup>86</sup> Stephan M. Haggard, *Pathways From the Periphery* (Ithaca: Cornell University Press, 1990), 51.

<sup>87</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 93.

<sup>88</sup> Haggard, *Pathways From the Periphery*, 55.

disadvantaged lower middle class earners could not afford the lifestyle they desired. This tension caused the middle-income stratum to join the national movement toward democracy. In Taiwan, the structural difference of an economy built upon thousands of smaller and medium-sized firms lent to more inclusive political-economic strategies from the governing regime. The larger number of firms also allowed Taiwan's sustained economic growth to be distributed more evenly, and the more encompassing trajectory lacked a similar middle-class consumption disparity found in South Korea. Although the same tension did not appear in the case of Taiwan, the ROK consumption disparity within an expanding middle class provides an example to compare China in the subsequent chapter.

## **B. KOREA**

South Korea's push for democracy followed decades of authoritarian rule in the name of exponential economic growth. Statistics show that "between 1962 and 1987 the Korean economy grew at an average rate of 8.9 percent per year."<sup>89</sup> Several causal elements contributed to Korea's astonishing growth, including: American security, shared sacrifice of laborers, protectionism, technocrat-guidance, and late industrialization. Following its establishment, the Republic of Korea (ROK) adopted an authoritarian government that limited democratic freedoms under a growth imperative. Three authoritarian rulers led the country from 1948–1987: Syngman Rhee, Park Chung-Hee, and Chun Doo-Hwan.<sup>90</sup> Although he governed autocratically, Rhee was democratically elected. Park and Chun both came to power in coups. Each regime suppressed societal freedoms and consolidated political environments as they saw fit.<sup>91</sup> After an era of economic growth, the ROK's political body slowly garnered more pluralist capacity.<sup>92</sup> By the 1980s, Korea's population progressively demanded political reform. As Koreans

---

<sup>89</sup> Chalmers Johnson, "The Democratization of South Korea: What Role Does Economic Development Play?," in *Korea Under Roh Tae-Woo: Democratisation, Northern Policy and Inter-Korean Relations*, ed. James Cotton (Canberra: Allen & Unwin, 1993), 73.

<sup>90</sup> Hyung Gu Lynn, *Bipolar Orders: The Two Koreas Since 1989* (New York: Zed Books, 2007), 27.

<sup>91</sup> Lynn, *Bipolar Orders*, 23.

<sup>92</sup> Carter J. Eckert, "Economic Development in Historical Perspective," in *Korea Old and New: A History* ed. Carter Eckert et al. (Cambridge: Harvard University Press, 1990), 388.



slowly grew increasingly unsatisfied with their authoritarian leaders, flashpoint events galvanized the population into large demonstrations and sustained the undertaking toward democracy. The following sections examine the nature of Korea's postwar economic growth and identify intervening variables responsible for the population's movement toward democracy.

## **1. Economic Causal Factors for Democratization**

Signed in 1953, the Korean War Armistice provided South Korea with the relative peace necessary to build a domestic economy. As the international landscape drove further into a bipolar struggle between democracy and communism, the young ROK economy fell under U.S. protection and inherited access to the burgeoning Western markets. The undeveloped country faced daunting challenges at first, and the ROK's economy initially fell behind a heavily subsidized Democratic People's Republic of Korea (DPRK). In its infancy, South Korea had to overcome monumental hindrances to economic growth. As an unfortunate legacy of Japanese colonizers having concentrated major industries in the northern half of the peninsula, infrastructure barely existed in the Republic of Korea.<sup>93</sup> Moreover, the South faced an ever-present threat from its Communist foe to the north. The Korean War never formally ended, and Kim il-Sung's rhetoric relayed a clear intent to reunify the peninsula at any moment. Driven by an uncertain future and domestic crisis, the ROK leaned on the security and patronage of its trans-Pacific ally to forge a new economy.

Guarded by the United States from the forces of communism, South Korea's government began its pursuit of economic growth through import substitution. In the second half of the 20th century, several Asian countries adopted a developmental state model to achieve rapid economic growth. Akin to Japan and Taiwan during the Cold War, South Korea's economy benefited enormously from the geopolitical stability of American military protection. While the American security umbrella assured the ROK's safety, the alliance also assured a robust market for exported goods from Korea's

---

<sup>93</sup> Minxin Pei, "Constructing the Political Foundations of an Economic Miracle," in *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, ed. Henry S. Rowen (London, Routledge, 1998), 45.

manufacturing sector. From 1945–1964, Korea pursued an import-substituting industrialization (ISI) economic strategy. In an ISI economy, Stephan Haggard explained, “the earnings from primary-product exports and foreign borrowing financed the import of selected producer goods.”<sup>94</sup> ISI countries use the imports to manufacture nondurable consumer goods for their domestic markets.<sup>95</sup> As a major international constraint, American aid financed much of Korea’s import substitution.<sup>96</sup> After two decades of slow growth, Park Chung-Hee moved Korea away from the confines of this model in 1965. The shift to export oriented industrialization (EOI) occurred partially as a result of the dire balance of payments situation created as a result of Rhee’s policies. Revealing the influence of Korean sentiment in steering their leaders, the shift to EOI occurred in response to the popular resentment toward the cronyism of Rhee’s earlier ISI regime. This notably underscored the Korean population’s power to shape political policy, even without a democratic system in place.

Political leaders steered the Korean economy toward the more lucrative strategy of exporting high-value consumer durables. In order to produce exports cost-effectively, the South’s labor force accepted the burden to sacrifice individual wealth and rights for their country’s growth imperative. South Koreans endured strenuous labor conditions and occupational immobility in exchange for regime survival and, eventually, shared economic success.<sup>97</sup> The ROK population followed the interventionist policies of their authoritarian government, which sought to achieve the high growth associated with export-oriented economies over the demands of individual laborers.<sup>98</sup> While this realignment achieved the desired economic growth, it also created political tensions among the working-class. This lower middle-class stratum was the disadvantaged segment in the new economic orientation; as such, they shouldered the encumbrances of

---

<sup>94</sup> Haggard, *Pathways From the Periphery*, 24.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid., 32.

<sup>97</sup> Stephan M. Haggard, “Business Politics and Policy in East and Southeast Asia,” in *Behind East Asian Growth: The Political and Social Foundations of Prosperity* ed. Henry S. Rowen (London: Routledge, 1998), 60.

<sup>98</sup> Haggard, *Pathways From the Periphery*, 63.

low wages and social mobility. Lower income yielded lower consumption ability, and this would later prove a critical impetus for the rising middle class' demand for democracy.

In addition to favorable international conditions and shared sacrifice, Korea's export-oriented growth also resulted from protectionist practices. Originally articulated by Friedrich List, the concept of protectionism is undergirded by the belief that national interest should guide a state's political economy.<sup>99</sup> Through regulatory protection, states ensured that their domestic industries maintained a competitive advantage in world markets.<sup>100</sup> Korean manufacturers intentionally got prices wrong in order to gain international market share through relatively cheaper goods. Stephan Haggard noted "in the early stages of export-led growth, tariffs remained high on import-competing goods."<sup>101</sup> This concerted effort effectively "governed the market" to achieve economic growth.<sup>102</sup> Beyond simply exploiting Korea's comparative advantage in the global market, the state intervened with sector-specific industrial incentives.<sup>103</sup> To encourage firms to shift from an import substitution to export-led economy, "a significant battery of state supports and institutional reforms reduced the risks and transactions costs of shifting into the export business."<sup>104</sup> Additionally, Korean leaders created a close collaboration between private industry and government bureaucracies. This significantly shaped the country's political balance and later created the conditions for popular unrest among the working class. In creating preferred economic interests (i.e., large *chaebol*), industrial policy in Korea also granted political power to the alliance between the military regime and big industry; which meant, in turn, that workers' rights and those of small enterprises were diminished. As worker's rights became the vanguard of popular demands during the

---

<sup>99</sup> Friedrich List, "The National System in Political Economy," in *The Political Economy Reader: Markets as Institutions*, ed. Naazneen H. Barma and Steven K. Vogel (New York: Routledge, 2008), 80.

<sup>100</sup> List, "The National System," 80.

<sup>101</sup> Haggard, *Pathways From the Periphery*, 66.

<sup>102</sup> Stephan Haggard, "Institutions and Growth in East Asia," *Studies in Comparative International Development* 38:4 (December 2004): 56.

<sup>103</sup> Haggard, *Pathways From the Periphery*, 13.

<sup>104</sup> Haggard, *Pathways From the Periphery*, 67.

protests of the 1980s, the inequities of this political balance became a key steam for the democratic movement.

In the shift to exports, the Korean government relied on technocrats to realign the economy's production sectors and encouraged private investment from abroad. While identifying causal components during Korea's period of rapid growth, Haggard pointed to the critical role of centralized economic policy making.<sup>105</sup> Created in 1961, the Economic Planning Board (EPB) consolidated several bureaus and ministries to effectively control the state's budget, planning, and foreign investment.<sup>106</sup> The new board wielded massive power to shape the economy and gave the state new capacities to influence the private sector. Alice Amsden also noted the centralized power of the state during this period. She found that "the Korean state acted as entrepreneur, banker, and shaper of the industrial structure."<sup>107</sup> Through guiding large *chaebol* conglomerates, such as Hyundai and Samsung, councils produced cost effective strategies that launched the ROK onto the export leaderboard in the global economy. In order to meet the price-points of a competitive global economy, Koreans in these sectors worked for low wages within a rigid labor market.<sup>108</sup> Weak labor movements allowed the state to keep wages suppressed in order to maximize profits.<sup>109</sup> The *chaebol* commanded Korea's major production sectors in tandem with the in-depth economic guidance of technocrats. Haggard also showed that Korea stimulated high levels of private investment through "strong protection of property rights, authoritarian political systems, and institutional innovations such as business-government counsels and strong bureaucracies."<sup>110</sup> These measures assured investors and stimulated additional capital flows into Korea. While protection, sacrifice, and government intervention played a large hand, so did the timing of Korea's growth.

---

<sup>105</sup> Haggard, *Pathways From the Periphery*, 64.

<sup>106</sup> Haggard, *Pathways From the Periphery*, 65.

<sup>107</sup> Robert Wade, "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence," *World Politics* 44, no. 02 (1992): 285.

<sup>108</sup> Haggard, *Pathways From the Periphery*, 63.

<sup>109</sup> Haggard, *Pathways From the Periphery*, 39.

<sup>110</sup> Haggard, "Institutions and Growth in East Asia," 56.

South Korea was also a benefactor of late industrialization, which allowed its economic sectors to leapfrog in technology on the backs of developed nations' innovations. Similar to other original Asian Miracle countries, South Korea adapted and improved upon technologies already developed by established industrial countries. Alice Amsden highlighted the late industrializing countries' ability to "acquire, or 'borrow,' the more codified elements of a given technology without having to develop them for itself."<sup>111</sup> Her findings mirror those of an economic historian's view on the advantages of economic backwardness. Alexander Gershenkron offered, "poor countries can borrow existing technology . . . to grow faster and to catch up to the more advanced economies."<sup>112</sup> South Korea's export-oriented economy effectively cherry-picked from the technological advances of further developed countries. Having established several of the intervening variables contributing to economic growth, this chapter now briefly addresses the political causal elements behind democratization in South Korea.

## **2. Political Causal Factors of Democratization**

Koreans endured several decades of authoritarian leadership, but the population exhibited a recurring tolerance for government suppression. Hyug Baeg Im aptly stated "until the mid-1980s, South Korea was a typical example of a country with a dynamic and rapidly growing economy that could not develop democracy."<sup>113</sup> Despite some key protest movements, Koreans continually demonstrated a willingness to accept the dirigisme-style of autocratic strongmen in the Executive Office. To be sure, alternatives arose several times after the Rhee government consolidated power over the rural elite and potential labor organizers.<sup>114</sup>

Dissidents to authoritarian governance emerged and were quickly suppressed throughout South Korea's path to democratization. The ROK democratically elected the

---

<sup>111</sup> Wade, "East Asia's Economic Success," 286.

<sup>112</sup> Dwight H. Perkins, *Economics of Development* (New York: W.W. Norton, 2001), 38.

<sup>113</sup> Hyug Baeg Im, "South Korean Democratic Consolidation in Comparative Perspective," in *Consolidating Democracy in South Korea*, ed. Larry Diamond and Byung-Kook Kim (Boulder: Lynne Rienner Publishers, 2000), 21.

<sup>114</sup> Haggard, *Pathways From the Periphery*, 51.

reformist government of Chang Myon in July 1960 for a short tenure before Park Chung Hee took power in a coup. The tacit acceptance of this coup demonstrated that Korean society did not fully embrace democracy at that point, and instead sought to maintain political stasis under a new authoritarian ruler.<sup>115</sup> Later opposition factions, most notably Kim Dae Jung and the Kwangju uprising in 1980, sought a more democratic order and mobilized support from the disadvantaged elements of society under the export-oriented economy.<sup>116</sup> Despite the presence of many necessary societal elements noted in modernization theory, the attempt at democratic transition failed under Kim Dae Jung in 1980.<sup>117</sup> For his role in attempting to overthrow the government, Kim was sentenced to death (although it was later commuted to life imprisonment.).<sup>118</sup> This affair highlighted a core reason for continuity of authoritarian reign: the extreme resiliency of the military and institutional order of Korea's political economy.<sup>119</sup>

Autocracy's staying power was also attributable to the strong alliance between the private sector and military apparatus under Park's political order, as well as the continued support of the middle class. The *chaebols* benefited enormously under the Park's Yushin system, and their profit margins would only suffer under democratic reform. As Haggard wrote, "democratic movements threatened to attack the substantial privileges that big business enjoyed."<sup>120</sup> As such, democratic movements also threatened the middle class in 1980. Haggard showed that "the intensification of violent student protests, large scale riots by miners and steelworkers, and the Kwangju uprising alienated conservative portions of the middle class."<sup>121</sup> Without the support of reforms from the middle class, as was later observed in the successful democratization movement of 1987, the ROK's authoritarian order marched on.

---

<sup>115</sup> Haggard, *Pathways From the Periphery*, 29.

<sup>116</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 88.

<sup>117</sup> *Ibid.*

<sup>118</sup> *Ibid.*

<sup>119</sup> *Ibid.*

<sup>120</sup> *Ibid.*, 89.

<sup>121</sup> *Ibid.*

The government's effective efforts to quash democratic uprisings played yet another significant role in the continuity of authoritarian government. Successful impositions of martial law and the use of troops to suppress the Kwangju uprising provided evidence of the repressive capacity authoritarian leaders effectively wielded during power transitions.<sup>122</sup> Despite the existence of various opposition efforts, the strong support for the political economy among the *chaebol*-dependent middle class and government repression marginalized dissidents at every turn. As a result of this resilient centralized authority, wages and occupational mobility among the working-class remained deliberately stifled for several decades.

A few explanatory factors contributed to the Korean society's high tolerance for authoritarian governance. Political leaders skillfully focused society on the economic growth imperative more than the need for individual liberties.<sup>123</sup> Many of the Koreans sacrificing for growth were impacted by the recent war. Still within the generation of the fight, Koreans understood that the DPRK still sought to reunify the peninsula under the banner of Communism. The clear and present danger of an enemy at the gates provided leaders with exceptional power. Rhee, for instance, masterfully leveraged the National Security Law to both subvert communism and to decimate his political opposition.<sup>124</sup>

While it kept communism at bay and ensured the growth of Korea's economy, the dirigiste style of the Executive branch ultimately set a course for massive popular demonstrations as a means to uproot corrupt governance.<sup>125</sup> Haggard underscored that "the absence of institutionalized linkages to civil society made it difficult for authoritarian governments to contain the domestic demands for reform."<sup>126</sup> When the demands of open society are bottled up without the "safety-valve" of a robust civil society, the pressure will eventually erode institutional coherence and inspire revolt. As Hyung Gu Lynn noted of this truth, "the first two regime changes failed to engender

---

<sup>122</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 89.

<sup>123</sup> *Ibid.*, 33.

<sup>124</sup> Carter J. Eckert, "Authoritarianism and Protest, 1948–1990," in *Korea Old and New: A History* in ed. Carter Eckert et al. (Cambridge: Harvard University Press, 1990), 348.

<sup>125</sup> Lynn, *Bipolar Orders*, 27.

<sup>126</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 91.

sustained democratic governments, but the memory of each—if not the direct outcome—contributed to the gradual attainment of the threshold point.”<sup>127</sup> In the mid-1980s, the ROK population finally broke through the first stage of democratization—freely elected governments.<sup>128</sup> Chalmers Johnson observed, “In very general terms, pluralism promotes demands for liberalization, and liberalization is conducive to democratization.”<sup>129</sup> The next stage of democratization focused on building institutions to sustain a more vigorous civil society. Growing civil societies highlight representative disparities among the government, and one critical mechanism to air those grievances is popular protest. The population engaged in demonstrations throughout Korea’s authoritarian history, and the legacy of the each protest compounded upon those that followed.

In the waning days of Syngman Rhee’s regime, student demonstrations in response to a rigged election elevated the powerful role of popular protests in Korean society. In light of how powerful Rhee’s grip was over society and his opposition, the protests’ effectiveness in removing him only emboldened society’s perception of the potent tool. As Lynn illustrated, “the legend of the April Revolution, that students were the guardians of political virtue and held the power to topple governments, that street demonstrations could make a difference—became a lodestar for subsequent generations of activists and demonstrators.”<sup>130</sup> Chalmers Johnson further elaborated on the important legacies of the 1960 revolution. The author observed the lasting implications in that “it was led by students, a major student martyr was created (in 1960 Kim Chu-Yol was tortured to death by the police just as in 1987 Park Jong-Chul died under similar circumstances), and authoritarian arrogance inflamed nonparticipants and caused them to rally behind the students.”<sup>131</sup> Scholars argue that a key group of “nonparticipants” up until the mid-1980s was the middle class, and the validity of that claim will be evaluated

---

<sup>127</sup> Lynn, *Bipolar Orders*, 27.

<sup>128</sup> Im, “South Korean Democratic Consolidation,” 21.

<sup>129</sup> Johnson, “The Democratization of South Korea,” 97.

<sup>130</sup> Lynn, *Bipolar Orders*, 29.

<sup>131</sup> Johnson, “The Democratization of South Korea,” 103.



in a later section. Regardless, protests did not end with ouster of the Rhee administration, and the lore of previous demonstrations grew stronger over time.

The consolidation of political authority grew even more severe under Park, and popular demonstrations served as a check upon presidential power grabs. Haggard recorded “Following the seizure of power by the military in May 1961, all political parties and organizations were banned, over 4,300 politicians barred from political activity, and the press subjected to new controls.”<sup>132</sup> The legislature remained weakened under Park’s rule, and the president disbanded unions and increased instruments of domestic political control. Even with the tremendously centralized authority, Park eventually faced organized opposition over normalizing economic relations with Japan.<sup>133</sup> Massive protests of broad coalitions formed in 1964 and then again in 1965 against the terms of the treaty.<sup>134</sup> According to scholars, those protests actually represented the fear that the government was using the treaty to further consolidate internal power.<sup>135</sup> Widespread protests proved to be a critical tool to check and even overthrow the country’s once willingly accepted authoritarian leaders.<sup>136</sup> In 1979, massive demonstrations were one of the most powerful mechanisms to oust the ruthless oppression of the Park regime.<sup>137</sup> Still, the government continued to keen monitoring of organizing activity, outlawed strike and unions, and kept wages low. The repressive apparatus resolved the symptoms of unrest in the short term. Bruce Cumings wrote, “In 1981 labor productivity increased 16 percent while wages went down 5 percent in real terms.”<sup>138</sup> Protests broke out throughout the 1980s over increasing demands to guarantee

---

<sup>132</sup> Haggard, *Pathways From the Periphery*, 63.

<sup>133</sup> *Ibid.*, 72.

<sup>134</sup> *Ibid.*, 73.

<sup>135</sup> Kwan Bong Kim, *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System* (New York: Praeger Publishers, 1971), 65.

<sup>136</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 91.

<sup>137</sup> *Ibid.*, 31.

<sup>138</sup> Bruce Cumings, “The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences,” in *The Political Economy of the New Asian Industrialism* ed. Frederic C. Deyo (Ithaca: Cornell University Press, 1987), 80.

political and civil liberties.<sup>139</sup> At the apex of decades of mounting frustration with the authoritarian rule, South Koreans engaged in the largest demonstration in the country's history to oust Chun's regime in 1987.<sup>140</sup>

### **3. South Korea's Middle Class**

Scholars of varying viewpoints dispute the role of South Korea's middle class in the country's democratization movement. Advocates of the group's influential role argue that political overreach and common ideology finally drove the middle class to coalesce with student movements in toppling the authoritarian regime.<sup>141</sup> Skeptics dismiss the middle class' role, and instead point to the additional pressure on the Chun regime created by the international attention of the upcoming 1988 Olympics.<sup>142</sup> Both viewpoints acknowledge the sizeable role of President Chun's political blunders when he waffled on constitutional issues surrounding his succession from power. Neither acknowledges the role of evolving middle-class consumption patterns. This section briefly summarizes the scholarship of advocates and skeptics on the role of the middle class in Korea's democratization.

Dong Won-Mo positively attributed the Korean middle class' contribution to the democratic movement. In his survey of literature on the subject, Dong found a lack of consensus over the size and meaning of the Korean middle class in the years prior to 1987.<sup>143</sup> The author examined the "primary motivating factors for an increasing and intermittent involvement of middle-class citizens in the anti-authoritarian political movement of the 1980s."<sup>144</sup> Dong recorded the rapid pace of social change, considerable rise of education rates, and the increase in gross national product per capita from the 1960s–1980s. The presence of these societal elements firmly adhere to the logic of

---

<sup>139</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 94.

<sup>140</sup> Ibid., 35.

<sup>141</sup> Won-Mo Dong, "The Democratisation of South Korea: What Role Does the Middle Class Play?," in *Korea Under Roh Tae-Woo: Democratisation, Northern Policy and Inter-Korean Relations*, ed. James Cotton (Canberra: Allen & Unwin, 1993), 86.

<sup>142</sup> Johnson, "The Democratization of South Korea," 104.

<sup>143</sup> Dong, "The Democratisation of South Korea," 74.

<sup>144</sup> Dong, "The Democratisation of South Korea," 75.

modernization theory; acting as critical catalysts toward democratization. After summarizing the variations among classifications, Dong found validity in the definition posed by the Korean government's Economic Planning Board. In 1987, the EPB defined the Korean middle class as:

1. Have a family income of at least 2.5 times as much as that of the legally defined minimum living cost;
2. Own and dwell in a separate house or apartment, or rent a house or apartment with a deposit to be repaid on leaving;
3. Be employed on a full-time basis or own his/her enterprise(s); and
4. Attain high school graduation or above in education.<sup>145</sup>

The EPB reported that 35% of the Korean population met these objective criteria in 1980, and by 1985 that percentage rose to 38%.<sup>146</sup> A World Bank report on the ROK's income distribution in 1985 also revealed a similarly large and influential middle class.<sup>147</sup> In conjunction with data from the Economic Planning Board, the report showed that the upper 20% of Korean income earners had access to 44% of national income.<sup>148</sup> The same report indicated that the middle 40% income bracket, or middle class, had access to 39% of the national income. While the lowest 40% of income earners fared worse in accessible capital than the top tiers, it remains that the ROK's middle class was sizable and financially influential. Dong also noted stability among Korea's income distribution throughout the period of economic growth. From 1965–1986, the author found that “while the rich got richer, the middle-income group did not proportionally dwindle.”<sup>149</sup> This definition provided objective criteria to assess the existence and strength of an income stratum, but a further examination of the data revealed two factors that are critical to understand the politic motivations of the Korean middle class.

---

<sup>145</sup> Dong, “The Democratisation of South Korea,” 77.

<sup>146</sup> Ibid.

<sup>147</sup> World Bank, “World Development Report 1988,” (1988), 273.

<sup>148</sup> Dong, “The Democratisation of South Korea,” 80.

<sup>149</sup> Ibid., 79.

An important aspect arose in a skeptic's dissent from the EPB's broad middle-class definition. A Ch'ungbuk University political sociologist, Professor So Kwan-mo, took issue with the board's portrayal of the middle class. His 1987 survey data broke the middle class down even further, and suggested the existence of a lower middle class or working-class tier.<sup>150</sup> This lower middle-class tier was financially better off than the lower class, which So classified as urban semi-proletariats, farmers, and fishermen.<sup>151</sup> This suggests that if average incomes rose, which they did from 1980–1987, then a new wave of middle class would rise out of the lower middle-class bracket. The existence and socioeconomic climb of the working class throughout the 1980s offered insight into the evolving consumption patterns of the middle class. The aspirations of those in the lower middle-income class to improve their material quality of life played a critical role in the protests of 1987. This study takes a closer look at the dynamic of socioeconomic mobility between income classes in the next section.

Another notable aspect of survey respondent data across several 1987 studies found that significantly more Koreans subjectively self-identified as middle-class than met the objective criteria.<sup>152</sup> This suggests that there was a desire among lower middle-class Koreans to identify with the next income echelon, which is important when later examining the desire to consume goods reflective of a middle-class lifestyle. Of this phenomenon, Dong noted:

This perception of the middle class among the Korean public has important implications for the political attitudes and behavior of the middle class, as it is after all their own opinion of the “political self” and their sense of group identity that largely determine how they act and interact in the political process.<sup>153</sup>

Although the political motivations are still debatable throughout the 1980s, the evolution of the middle class' material desires is commonly accepted. Characterizing the middle class as preoccupied with material improvement, Korean Professor Zinn Dokyu

---

<sup>150</sup> Dong, “The Democratisation of South Korea,” 84.

<sup>151</sup> Ibid.

<sup>152</sup> Ibid., 82.

<sup>153</sup> Ibid., 83.

wrote, “they are proud to exhibit their improved social position.”<sup>154</sup> This social consciousness among a new wave of middle class is very similar to what Alice Ekman wrote about the consumption habits of the modern rising middle class in China. This presents a critical node for modeling the causal effects of middle-class consumption behavior in the next chapter of this study.

While Dong Won-Mo summarized the literature and validated the EPB’s definition of the middle class, his research fell short on the motivations of the middle class. Dong found that ideological coalescence between the student movements and the middle class occurred only after two egregious abuses of regime power—the Sexual Interrogation Incident in 1986 and Pak Jong-ch’ol Torture Death of 1987.<sup>155</sup> Dong claimed that these punctuated incidents transformed the previously timid middle class into an outward political force to topple the regime in July 1987. The author claimed, “the abuse of state power in violation of constitutionally guaranteed human rights went one step beyond the outer limits of people’s tolerance and patience.”<sup>156</sup> In his assessment, the combined power of the students and middle-class demonstrations was critical to the country’s transition from authoritarian reign. This highlighted the building structural pressures for democracy, but argues that specific events served as the actual trigger for the democratization movement to gain full force. While there is merit to Dong’s assertions, they ultimately fall short in identifying a critical tension between the rising middle class and government: new consumption desires were outpacing decades of intentionally depressed labor wages as the working-class ascended into the middle class. The following section presents evidence that a critical yet understudied variable, middle-class consumption, was of substantial influence to the democratization of Korea.

#### **4. Middle-Class Consumption**

A disparity of purchasing power between Korea’s middle and lower-middle income echelons developed prior to the popular protests for reform, yet the consumption

---

<sup>154</sup> Dong, “The Democratisation of South Korea,” 86.

<sup>155</sup> Ibid., 87.

<sup>156</sup> Ibid., 88.

metric remains overlooked in the debate over the middle class' influence on democratization.<sup>157</sup> A Korean country-study commissioned by the U.S. Government revealed evidence that middle-class consumption played a significant role in the transformational unrest of 1987. Even as household income rose in throughout the 1980s, labor unions aggressively hit the picket lines to demand even higher wages and improved conditions.<sup>158</sup> Andreas Savada characterized this group of working-class as galvanized by "reports that the rate of South Korea's economic growth was greater than the improvements in their own incomes and life-styles."<sup>159</sup> As the Korean lower middle class became increasingly surrounded by a new age of consumer goods and services, their desires to achieve consumption parity with the higher-income strata drove them to protest for better wages. These frequent demonstrations in the labor arena eventually merged with the larger student-led national protests over President Chun's abuse of power. Thus, the consumption desires of an inadequately compensated Korean working-class provided a critical impetus to usher authoritarian governance out of Seoul.

The global marketplace evolved heavily throughout the mid-80s, and the Korean middle class required higher wages for its increasing appetite for consumption. Savada captured the perspective of these hardworking laborers as they began to feel priced out of a better life. The author portrayed this class as caught in "a revolution of rising expectations, as a wave of rising urban land values and housing costs outpaced average real wage increases of more than 70 percent during the 1980s."<sup>160</sup> Beyond rising housing costs, lower middle-class earners worked at a feverish pace just to remain above the line of the lowest-income stratum. Cataloging the mounting grievances of the working-class during this time, Frederic Deyo recorded "real wage declines, layoffs, and unacceptable working conditions."<sup>161</sup> Frustration mounted, as this group also had to work extremely

---

<sup>157</sup> Andrea Matles Savada. *South Korea: A Country Study* (Washington, DC: Library of Congress, 1992), 175.

<sup>158</sup> Savada, *South Korea: A Country Study*, 175.

<sup>159</sup> Ibid.

<sup>160</sup> Savada, *South Korea: A Country Study*, 175.

<sup>161</sup> Frederic C. Deyo, *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), 196.

long hours to maintain job security with low wages and virtually no benefits.<sup>162</sup> In fact, the ROK had the world's longest average workweek hours at 54.7 hours in 1986.<sup>163</sup> Savada summarized the grievances of the working-class during the period of democratic transition:

In 1986 the average wage of a South Korean worker was U.S. \$381 a month (339,474 won), including overtime and all allowances. The basic wage was \$287, or 255,408 won, but, according to the government, the basic wage necessary to sustain a "decent" way of life was \$588 (524,113 won). Thus, the average worker only earned two-thirds of what the government thought necessary to sustain a family of four.<sup>164</sup>

In other words, even the government perceived that average South Korean labor wages were not adequate to provide beyond necessity spending. While the middle class was already incorporated into Park and Chun's political economy strategy, this new lower middle-income stratum was not adequately assimilated into the political balance under the same economic models.

This pressure for increased wages manifested in organized labor strikes, which drove middle-class incomes higher in the 1980s. The South Korean country study pointed out that that between 1985 and 1988, average household income rose 14.8% per year.<sup>165</sup> The average household earned U.S. \$8,645 annually in 1985, and that metric jumped to \$13,081 by 1988. The Gini coefficient only modestly decreased during that same four-year transition period, from 0.3449 to 0.3355.<sup>166</sup> Savada wrote, "although wages had increased substantially in the late 1980s, this increase was not because of the good will of the *chaebol* or the government, but was the result of a great many strikes and a shortage of skilled workers as industry expanded."<sup>167</sup> Protests were again used as a critical change-agent, but these labor disputes were driven by discontent created when more costly lifestyles outpaced working-class earnings.

---

<sup>162</sup> Savada, *South Korea: A Country Study*, 175.

<sup>163</sup> *Ibid.*, 176.

<sup>164</sup> *Ibid.*, 175.

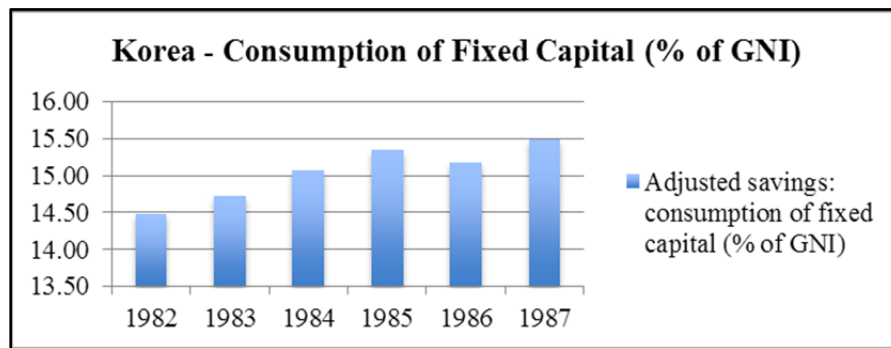
<sup>165</sup> *Ibid.*, 177.

<sup>166</sup> Savada, *South Korea: A Country Study*, 177.

<sup>167</sup> *Ibid.*

Increased pay provided the working-class with additional purchasing power to spend beyond basic necessities, and consumption rose in parallel with the rising household income. Figure 1 illustrates the rise of Korea's aggregate consumption from 14.5% (of Gross National Income) in 1982 to 15.5% in 1987. While the percentages appear to show only a modest consumption increase over the six-year period, the dollar amount (inflation-adjusted U.S. dollars) of consumption nearly doubled from \$11 billion to \$23 billion.

Figure 1. ROK Consumption: 1982–1987<sup>168</sup>



Purchasing power for the average Korean increased swiftly throughout the 1980s. Moreover, the South Koreans became fixated on owning durable consumer goods, consuming a heartier diet, and purchasing trendy material items.<sup>169</sup> The country study elaborated on this snapshot of middle-class consumption:

By the late 1980s, television sets and refrigerators had become a standard part of the average household, and ownership of an automobile was not unusual. Families tended to consume more meat, fresh vegetables and fruit, canned or processed foods, and to eat less rice than in previous decades. They also dressed in modern fashions made from quality fabrics. Higher incomes led to significant shifts in consumption patterns. For example, in 1963 the average family spent 57.4 percent of its budget on food. Twenty years later, the share going to food had fallen to 40 percent.<sup>170</sup>

<sup>168</sup> "Wealth Accounting, GNI per Capita, Atlas Method," World Bank, 2015. <http://data.worldbank.org/data-catalog/wealth-accounting>.

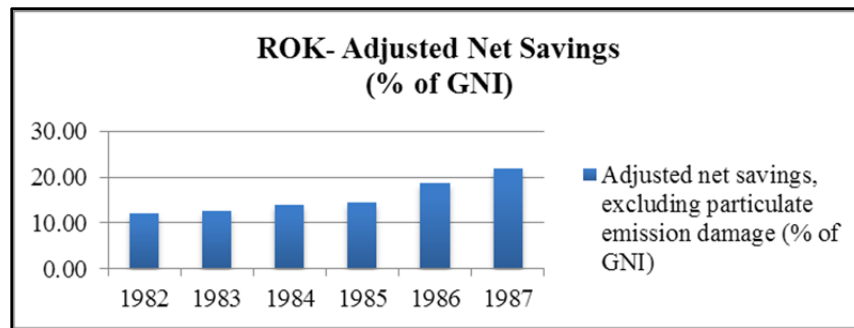
<sup>169</sup> Savada, *South Korea: A Country Study*, 177.

<sup>170</sup> Ibid.



Rising income led to rising material demands, and new consumption behavior was certainly evident in the lead-up to democratization. Scholars of this time period showed that consumption behavior evolved rapidly in the 1980s. Beyond the society's top earners, demand for higher-end goods and services became fueled by the increasing appetite of middle-class consumers. Figure 2 shows that, in aggregate, savings in the ROK grew year over year in the five years leading up to democratization. Net savings, as a percentage of gross national income, rose steadily from 12.2% in 1982 to 21.8% in 1987.

Figure 2. ROK Savings: 1982–1987<sup>171</sup>



Similar to household income, the increased savings rates are critical to understanding Koreans consumption behavior prior to democratization. As wealth grew across the income strata during this decade, so did the spending ability of average earners. Andrea Savada noted “Korean consumers, whose savings had been buoyed by double-digit wage increases each year since 1987 ... had the wherewithal to purchase luxury items for the first time.”<sup>172</sup> As a result of this new domestic demand, the economy reoriented again from an emphasis on exports to satiating new material desires of the country's own population.<sup>173</sup> Savada concluded “On the supply side, the greater growth

<sup>171</sup> “Wealth Accounting,” 2015.

<sup>172</sup> Savada. *South Korea: A Country Study*, 187.

<sup>173</sup> Ibid.

in services mirrored what the people wanted—more goods, especially imports, and many more services.”<sup>174</sup>

The pro-democracy coalition ripened throughout the 1980s, and the consumption disparity among the lower middle class added pressure for regime change. On the precipice of the 1987 demonstrations, the ROK contained many incensed societal factions against the political economy. In addition to the inadequate wages for the working-class, Deyo highlighted “greater elite conflict; oppositional mobilization of students, church groups, and dissident politicians.”<sup>175</sup> The strength of these factions combined during the punctuated events of 1987, and ultimately produced more pluralist-capacity in Korean governance. Evidence suggests that consumption patterns shifted inside of Korea at the time of the democratic transition. This shift in consumer demands coincided with a higher cost to achieve the evolving Korean middle-class lifestyle. The confluence of these elements led to increased agitation among the overworked middle-income earners, who could not afford the lifestyle they desired. The middle class’ role in the 1987 protests that liberalized Korea’s government is relegated to an ideological coalescence with the student-movement; however, evidence suggests that it is more appropriately attributed to the evolving consumption patterns of the middle class.

### C. TAIWAN

Although far from an ideal democratic state, Taiwan’s economic growth gradually coincided with greater civil liberties for its society. After its defeat in the Chinese Civil War, the Republic of China (ROC) became heavily dependent upon U.S. aid and security. When the American monetary flow waned, Taiwan’s survival imperative allowed the Kuomintang (KMT) to suppress civil liberties and reorient the economy under the auspices of an economic growth mandate. Following tremendous economic growth and development, Taiwan’s one-party authoritarian system evolved into a more representative pluralist democracy. From its earliest days on the island of Formosa, Taiwan experienced three discernable patterns in its political economy: patronage dependence, soft

---

<sup>174</sup> Ibid.

<sup>175</sup> Deyo, *The Political Economy*, 196.

authoritarianism, and democratization. Taiwan's export oriented growth relied on thousands of small private enterprises, and this structure allowed a more even distribution of the country's economic growth across income strata. Taiwan's leaders also preempted large-scale popular demand for more inclusive governance by intentionally divesting political power. The combination of these two elements prevented consumption disparities from becoming a driver for democratization. This section examines the relationship between economics and politics throughout Taiwan's modern history.

### **1. American Patronage**

In the early years of its relatively short history, Taiwan relied on massive financial assistance from America for regime survival and infrastructure creation. Referring to the 1950s, Dwight Perkins wrote "Taiwan . . . had few exports (mostly sugar) and consistently ran large current account deficits that were financed mostly by U.S. foreign aid."<sup>176</sup> Even without assessing the current inflation adjusted values, the pecuniary aid levels were staggering. In assistance to the KMT "from 1949 to 1963, U.S. economic and military grants totaled approximately \$3.7 billion, with another \$1.3 billion in loans."<sup>177</sup> Such large monetary amounts would seem to indicate aligned interests between the KMT and America, but it was clear that regime survival took precedence for Chiang over advancing U.S. strategy. Despite widely reported corruption and incompetence within the Kuomintang, Chiang Kai-shek skillfully manipulated international politics to serve his country's economic needs.

The ROC entered a traumatic period halfway through the 20th century, but U.S. military and economic infusions at the onset of the Cold War propelled the state into a distinctive position for future economic growth.<sup>178</sup> In the waning days of the Chinese civil war, it became clear that the Chinese Communist Party would prevail on the

---

<sup>176</sup> Dwight H. Perkins, *East Asian Development: Foundations and Strategies* (Cambridge: Harvard University Press, 2013), 85.

<sup>177</sup> Steven M. Goldstein, "The United States and the Republic of China, 1949–1978: Suspicious Allies" (Palo Alto: Stanford, February 2000), 13.

<sup>178</sup> Richard Stubbs, "'War Makes States' in East Asia: The Origins of the Strong State in Asia's 'Miracle' Economies," (paper presented at the International Studies Association Conference, Montreal, March 17–20, 2004), 8.

mainland. The ROC's bleak future prospects engendered an economic growth imperative among society as a means to survive against a determined enemy.<sup>179</sup> Moreover, the Cold War allowed Taiwan to transform under the U.S. security umbrella into a self-sustaining economic powerhouse. Richard Stubbs aptly demonstrated how Taiwan's political economy was the "product of the sequence of geopolitical events that swept through the region from 1941 to the late 1960s."<sup>180</sup> The political context was critical to explaining the foundation of Taiwan's economic success. At the end of the Korean War, preserving the KMT on Formosa became more critical to America's interest in the global ideological struggle. President Truman's Containment doctrine officially emerged in Asia in 1947. Prior to the Korean War, Truman's administration was at great odds with Chiang and his KMT. Chiang's inner circle embezzled huge portions of U.S. aid for personal enrichment while rural segments of society starved to death.<sup>181</sup> In fact, Dean Acheson's famous 1950 speech at the National Press Club clearly put Taiwan outside of the security perimeter of the United States.<sup>182</sup>

The onset of the Korean War changed the mindsets many leaders in Washington, and America's monetary assistance became even more critical to Taiwan's economy.<sup>183</sup> American policy makers naturally feared that communists would add hundreds of millions to their ranks if China fell to the spreading ideology. As John Gaddis explained, "the Truman administration found itself precisely in the position it sought to avoid: yoked as it were, for better or worse, to Chiang Kai-shek."<sup>184</sup> In the language of the 1951 NSC 48/5, the United States' interests were suddenly best served in maintaining the non-

---

<sup>179</sup> Haggard, "Institutions and Growth in East Asia," 60.

<sup>180</sup> Stubbs, "War Makes States," 17.

<sup>181</sup> Jonathon Fenby, *Chiang Kai-Shek: China's Generalissimo and the Nation He Lost* (New York: Carroll & Graf Publishers, 2004), 463.

<sup>182</sup> John L. Gaddis, "The Strategic Perspective: The Rise and Fall of the Defensive Perimeter Concept" in *Uncertain Years: Chinese-American Relations, 1947-1950*, eds. Dorothy Borg and Waldo Heinrichs (New York: Columbia University Press, 1980), 61.

<sup>183</sup> Nicholas Eberstadt, "Taiwan and South Korea: The 'Democratization' of Outlier States," *World Affairs* 155, no.2 (1992): 80.

<sup>184</sup> Gaddis, "The Strategic Perspective," 93.

communist regime on Formosa.<sup>185</sup> The president reluctantly increased both military and economic support to the ROC, and the United States' strategic interests became more intertwined with the ROC in the face of Communist aggression.<sup>186</sup> The coinciding strong American investment in the recovery programs for Europe and Japan made a compelling domestic-politics case to protect the ROC as yet another bulwark of democracy.<sup>187</sup>

As aid continued to flow to Taiwan during the Eisenhower administration, the KMT's incompetent management led to dire economic results for Taiwan's lower class. Eisenhower realized the KMT's fragility and sought to prevent the Taiwanese from turning on Chiang.<sup>188</sup> Post-war portfolios revealed ROC peasants eating bark and leaves while the government continued to extract taxes beyond production levels.<sup>189</sup> Chiang fueled the fear that his regime faced a domestic legitimacy crisis and warned that any future missteps could lead to a collapse. The Generalissimo played the issues of morale and legitimacy effectively to lobby the U.S. president for more aid. To be certain, the Eisenhower administration was more concerned about the Asian domino effect in the Cold War as opposed to Chiang's hold on power.<sup>190</sup> Washington balanced between not causing the KMT to collapse and not drawing the U.S. into the island's defense.<sup>191</sup>

## **2. Soft Authoritarianism and Export-Oriented Growth**

In order to understand the Taiwanese political economy following America's patronage, one must first understand its brief economic history. Throughout the 1950s, exports were not profitable for Taiwan.<sup>192</sup> Dwight Perkins described the island's economic characteristics during its first decade with high trade barriers, overvalued

---

<sup>185</sup> U.S. State Department, *Foreign Relations of the United States*, 1951, Volume VII (Washington, DC: Government Printing Office, 1983).

<sup>186</sup> U.S. State Department, *Foreign Relations of the United States*, 1952–54, Volume XIV (Washington, DC: Government Printing Office, 1983), 309.

<sup>187</sup> Michael Schaller, *The United States and China: Into the Twenty-First Century*. 3rd ed. (New York: Oxford University Press, 2002), 112.

<sup>188</sup> Goldstein, "Suspicious Allies," 17.

<sup>189</sup> Schaller, *United States and China*, 73.

<sup>190</sup> Goldstein, "Suspicious Allies," 18.

<sup>191</sup> *Ibid.*

<sup>192</sup> Perkins, *East Asian Development*, 85.

exchange rates, and restricted imports. In Perkins' estimation, "import-substituting industrialization was thus the only viable industrial development strategy available in this context."<sup>193</sup> Initially reliant upon the American dole to establish infrastructure and fuel its economy, Taiwan operated at a loss while pursuing import-substituting industrialization.

Through the role of small private enterprises, the Taiwanese population was more incorporated in their country's rapid economic growth than Korea.. Beginning in 1960, Chiang Kai-shek promoted policies to spur the production of high-value exports. Consequently, exports levels rose rapidly throughout the 1960s. Taiwan's government took a more targeted approach to economic development in the 1970s, investing resources and brainpower into the most lucrative heavy industries. While large state-owned enterprises operated majority of these sectors early on, approximately 90,000 smaller private firms came to control the production over the next decade. In the 1980s, Taiwan's government made the push into the high-technology sectors and invested in the necessary human capital to ensure a successfully transition.<sup>194</sup> The trajectory of Taiwan, like its fellow Asian miracle economies, transformed a peasant society into one of the world industrial powerhouses.<sup>195</sup> Among other structural differences, the small private enterprises approach later created a smoother democratization process in Taiwan as compared to the *chaebol* approach in Korea.

To achieve their remarkable growth though, the Taiwanese compromised their personal political freedoms for the promise of a better tomorrow. Paul Krugman posited that the Taiwanese "were willing to limit individual liberties in the interest of the common good, take charge of their economies, and sacrifice short-run consumer interests for the long-run growth."<sup>196</sup> As a result of unique partnerships between bureaucrats and developmental elites in Taiwan, the Kuomintang successfully achieved national economic goals through centrally advantaged industries and an export-oriented

---

<sup>193</sup> Ibid.

<sup>194</sup> Perkins, *East Asian Development*, 86–9.

<sup>195</sup> Paul Krugman, "The Myth of Asia's Miracle," *Foreign Affairs* 73, no.6 (Nov/Dec1994): 62.

<sup>196</sup> Krugman, "The Myth of Asia's Miracle," 62.

production model.<sup>197</sup> Chalmers Johnson described the many aspects of the soft-authoritarian Taiwanese economy in his examination of the Asian Miracle. Outlawed strikes, the lack of a minimum wage, and unions devoid of power all contributed to the high-speed growth in the study's Asian economies.<sup>198</sup> The results of Taiwan's mixed economic compositions are hybrid combinations of market-based and command economies.<sup>199</sup> Taiwan's political economy during the 1960s–1990s was at the nexus of authoritarianism and capitalism.<sup>200</sup>

Given the KMT's Leninist heritage, the soft authoritarian model was not a radical concept for the Taiwanese and faced little domestic political resistance.<sup>201</sup> Dr. Sun Yat-sen founded the KMT decades before it moved to Formosa, and the party oscillated between the Soviet Comintern assistance and U.S. patronage during its early years. Sun's successor as president, General Chiang Kai-shek, was also heavily influenced by Soviet military doctrine and politics.<sup>202</sup> Thus, the KMT operated with a strict party "centralism" and was structured similarly to the Leninist model of the Soviet government.<sup>203</sup> As Nicholas Eberstadt highlighted of Taiwan's early political economy, "non-communist Leninism allowed for both the ruthless suppression of local opposition to the KMT authority and a simultaneous KMT sponsorship of commercial policies that were intended to enrich the local population."<sup>204</sup> Taiwan's government was monolithic and heavy-handed by design, but economic growth eventually pushed partnerships with minority factions to form a more representative alliance.

---

<sup>197</sup> Ibid., 140.

<sup>198</sup> Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan" in *Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo (Ithaca: Cornell University Press, 1987), 146.

<sup>199</sup> Johnson, "Political Institutions and Economic Performance," 142.

<sup>200</sup> Ibid., 140.

<sup>201</sup> Eberstadt, "Taiwan and South Korea," 81.

<sup>202</sup> Ibid.

<sup>203</sup> Eberstadt, "Taiwan and South Korea," 81.

<sup>204</sup> Ibid., 82.

### 3. Intervening Variables for Democratization

As a result of its economic growth and deliberate decisions, democracy took root in Taiwan and representation became more inclusive of the previously outcast groups. The ROC commandeered an island already inhabited in 1949, but the KMT treated the native Taiwanese lower class citizens than the former mainlanders.<sup>205</sup> The natives and mainlanders held nearly equal amounts economic assets, so inequality was initially very low on the island. The Kuomintang's harsh treatment of the natives created resentment toward their new mainland occupiers, but there would be no political representation for the suppressed group to air grievances. Describing this social cleavage, Perkins stated "for decades most government jobs with any significant level of responsibility and most military officers were former mainlanders"<sup>206</sup> Through the keen foresight of political leadership, Taiwan moved away from its exclusively mainlander government and authoritarian roots beginning in 1985.

Chiang Kai-shek's son and successor, Chiang Ching-kuo, proved pivotal in the democratization of Taiwan following decades of economic growth. Eberstadt wrote, "in the Republic of China, the transition to a more open political order was a KMT decision; the execution of the policy was carefully managed by the party as well."<sup>207</sup> Chiang Ching-kuo made a series of decisions during his tenure deliberately focused on creating a more inclusive governing body. After several years of economic growth unhindered by political opposition, Chiang began the "Taiwanization" of his political party to be more ethnically representative of society.<sup>208</sup> After taking this qualitative change, Chiang sought to change the structure of his party. In Eberstadt's estimation "the transition toward pluralism and openness may be dated to a presidential announcement in late 1985."<sup>209</sup> Chiang Ching-kuo, in his dying years, took the extraordinary step of barring his family members or any military officers from replacing him as President. This selfless decision

---

<sup>205</sup> Perkins, *East Asian Development*, 84.

<sup>206</sup> Ibid.

<sup>207</sup> Eberstadt, "Taiwan and South Korea," 83.

<sup>208</sup> Eberstadt, "Taiwan and South Korea," 83.

<sup>209</sup> Ibid., 84.



opened the possibility for greater pluralism and meritocracy in Taiwan. To be sure, there were many growing pains that followed the KMT's relinquishment of total political control. Still, opposition parties were eventually legalized within a decade and subsequent election results slowly resembled plurality. A new era of political openness took hold within Taiwan.<sup>210</sup>

#### 4. Taiwan's Middle Class

The middle class' role in Taiwan's democratization, if anything, involved the political demand for greater representation. Evidence of a rising middle class clamoring for higher wages to satisfy new consumption demands did not surface in the Taiwan case study. Taiwan's rapid economic growth was spread more equitably across the nation's earners, and no notable tensions existed over socioeconomic immobility.<sup>211</sup> The ROC's income inequality remained low and steady throughout the years preceding liberalization; the Gini coefficient rose from .30 in 1980 to .33 in 1987.<sup>212</sup> There was also a lack of political or economic crisis during Taiwan's 1987 political conversion. As shown in Figure 3, the ROC's economy was extremely healthy around the time of the democratic transition.

Figure 3. Economic Developments in Taiwan: 1982–87<sup>213</sup>

	1982	1983	1984	1985	1986	1987
<b>GDP Growth</b>	3.6	8.4	10.6	5	11.6	12.3
<b>Inflation</b>	3	1.4	0	-0.2	0.7	0.5
<b>Fiscal Surplus/GDP</b>	-0.2	0.1	0.6	0.5	0.1	1.4
<b>Current Account/GDP</b>	4.6	8.4	11.7	14.5	21.1	17.4
<b>Investment/GDP</b>	25.2	23.4	21.9	18.7	17.1	20.1
<b>Real Income</b>	2.7	7.4	10.4	4.1	15.9	12.2

<sup>210</sup> Eberstadt, "Taiwan and South Korea," 84.

<sup>211</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 277.

<sup>212</sup> Ibid., 320.

<sup>213</sup> Republic of China, Council for Economic Planning and Development, *Taiwan Statistical Data Book 1993*, in Haggard and Kaufman, *Political Economy of Democratic Transitions*, 297.

Low inflation and high growth captured the pulse of Taiwan's vibrant economic progress throughout the 1980s. Moreover, the KMT proactively undertook political reform on the backdrop of their healthy economy. Stephan Haggard described the results of this political masterstroke. The author wrote "the relative success of the government's policies created a base of support that included not only business, but a wide swath of the middle class as well."<sup>214</sup> In other words, the controlled nature of Taiwan's electoral opening pacified the middle class. Thus, democratization in Taiwan was a more managed, smoother process than in Korea. The difference was a result of economic choices and the ways in which the two regimes acted to incorporate or marginalize specific political-economic interests.

## **5. CONCLUSION**

With the help of a selfless leader's decision, Taiwan transformed from a heavy-handed monolithic regime into a more pluralist democracy. After years of developmental growth, Taiwan liberalized its once single-party authoritarian state political system. Initially, the island-nation relied upon heavy foreign aid from the United States and its economy operated at an annual loss. Facing a growth imperative, Chiang Kai-shek commenced an economic transformation that culminated in a high-value export-oriented production. In addition to choosing the most lucrative economic sectors to invest, Taiwan's leadership invested in the human capital to sustain its transformation. This strategy paid tremendous economic dividends for the island-nation, and it also spurred a more inclusive form of government. At the time of the democratic transition, outstanding economic performance and well distributed income created a low-risk profile for the KMT to institute political reform.

## **D. COUNTRY COMPARISON: KOREA AND TAIWAN**

While the countries had similar histories and causal elements for their economic growth, Korea and Taiwan also had significant differences in their political economies. Although the Korean political structure was at the outset slightly more democratic than

---

<sup>214</sup> Ibid., 181.

Taiwan's one-party system, each country operated under strong authoritarian governments until 1987.<sup>215</sup> Both countries shared the social configurations of no landed rural elite, lack of a radical left to contest the governing party, and weakened labor movements.<sup>216</sup> Korea and Taiwan similarly faced Communist-foes eager to overtake their young countries, and this squashed most political dissent for the higher purpose of regime survival.<sup>217</sup> Finally, both countries enjoyed the rapid economic growth of export-oriented industrialization during the boom-decades for East Asian NICs. Beyond these similarities, several differences among them drove different paths to democracy.

In contrasting Taiwan with Korea, dissimilar structures and conditions stand out the most. Haggard pointed to Taiwan's "greater difference between government and business, a more independent technocracy, and a narrower range of industrial policy instruments."<sup>218</sup> The structural difference of having many smaller and medium-sized firms as opposed to large conglomerates demonstrated credible space between the private sector and the Taiwanese government—and also incorporated more of the population's voices and demands into the political-economic strategies of the governing regime. When the ROC's government did intervene in markets, its interventionism was much less severe. Haggard wrote, "the government did not attempt to steer industry in a particular direction, in contrast to Korea the process was more incremental and relied to a great extent on general incentives, the provision of infrastructure, and institutional supports."<sup>219</sup> Korea also experienced more inflation and external debt problems throughout period prior to its democratic transition, whereas Taiwan ran current account surpluses and price stability (see Figure 3).<sup>220</sup> In general, Taiwan's transition to democracy is characterized as much smoother process than what Korea endured. Middle-class protests in Taiwan were unnecessary to achieve democracy because the regime headed in that direction; whereas in Korea, the regime's more repressive strategy actually

---

<sup>215</sup> Haggard, *Pathways From the Periphery*, 97.

<sup>216</sup> Haggard, *Pathways From the Periphery*, 97.

<sup>217</sup> Ibid.

<sup>218</sup> Haggard, *Pathways From the Periphery*, 143.

<sup>219</sup> Ibid., 142.

<sup>220</sup> Haggard and Kaufman, *Political Economy of Democratic Transitions*, 280.

provoked more protest and rapid change. As such, the tension of middle-class earners striving for consumption parity with the higher-income bracket was not a driving force in Taiwan's democratization.

## IV. CHINA

### A. INTRODUCTION

This chapter examines the genesis of China's modern political economy before determining the existence of consumption tension among the middle class. The first section inspects the causal factors behind China's astonishing economic growth during the post-Mao era. From there, the chapter explores the political tensions between the population and the government arisen since Deng Xiaoping's reforms nearly four decades ago. Seven points of political tension are evaluated to determine their individual causal significance towards democratization. Following the survey of friction points, this chapter turns to analyze the history of modern consumption among China's middle class. The narrative then provides an account of the evolving relationship between middle-class Chinese, the CCP, and the consumption variable. This chapter subsequently offers several examples of how consumption shapes the self-identity of China's modern middle class. At the heart of this thesis, this chapter then examines the impact of Chinese middle-class consumption on democratization. The previous chapter's case study of South Korea revealed evidence of middle-class consumption acting as a critical casual factor towards democratization. With the Korean model in mind, this chapter seeks to discover if a similar tension exists among China's rising middle class. Finally, this chapter scrutinizes the causal reasons behind political inaction among the middle class and offers insights into the future prospects of democratization in China. First, this chapter broadly maps the growth-yielding reforms that led to the modern political economy of China.

### B. REFORM AND ECONOMIC RISE

Modern China represents the paradox of an unyielding one-party totalitarian government that successfully liberalized away from a communist-planned economy.<sup>221</sup> The Chinese stood on the precipice of their own growth imperative in the late 1970s, and

---

<sup>221</sup> Doug Guthrie, "China and Globalization," in *The Political Economy Reader: Markets as Institutions*, ed. Naazneen H. Barma and Steven K. Vogel (New York: Routledge, 2008), 402.

Deng Xiaoping initiated economic reforms that preserved the repressive Chinese Communist Party in power while lifting over 200 million people out of poverty. Doug Guthrie asserted that Chinese gradualism succeeded by slowly realigning the structure of its command economy. A few key aspects were critical to China's successful transition to capitalism: relinquished state control, increased foreign investment, and a legal system that grew alongside the reform.<sup>222</sup> More central to understanding the effect on democratization, the economic reforms did not undermine the ruling political position of the Party.<sup>223</sup> Concurrently, the economic reforms created different interest groups within China's political economy. In order to understand the current societal segments that could lend to democratization, it is important to first understand the effects of China's reforms. The gradual and experimental restructuring allowed a stratified society to arise from decades of Party-imposed suppression on individual wealth and consumption.

The CCP uniquely surrendered its control of state owned enterprises without privatization. A hybrid "dual-track" system allowed planned production for large state-owned enterprises, but also provided incentives to generate above the target production levels dictated by the Plan.<sup>224</sup> In a successful bid to lure external investment and technology, the Party allowed foreign companies to operate unrestricted in special economic zones.<sup>225</sup> Moreover, the government steadily pushed economic control and accountability down to the local level.<sup>226</sup> At the local level, Barry Naughton explained that "rural communities were allowed to run township and village enterprises outside the plan because doing so would contribute to local investment and economic growth."<sup>227</sup> Agriculture surged after the Party took the unexpected step of contracting land to farming

---

<sup>222</sup> Guthrie, "China and Globalization," 402.

<sup>223</sup> Zhou Xiaohong and Qin Chen, "Globalization and China's Middle Class," in *China's Emerging Middle Class: Beyond Economic Transformation*, ed. Cheng Li (Washington: Brookings Institution Press, 2010), 98.

<sup>224</sup> Yingyi Qian, "How Reform Worked in China," in *In Search of Prosperity: Analytic Narratives on Economic Growth*, ed. Dani Rodrik (Princeton: Princeton University Press, 2003), 307.

<sup>225</sup> Barry Naughton, *The Chinese Economy: Transitions and Growth* (Cambridge: The MIT Press, 2006), 87.

<sup>226</sup> Guthrie, "China and Globalization," 403.

<sup>227</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 87.

households.<sup>228</sup> Taken in tandem, these reforms incentivized more efficient outcomes across the Chinese economy. Naughton described how “markets were introduced into nearly every area, ownership was diversified, and competition created, all within the framework of the existing institutions.”<sup>229</sup> The result was an improved quality of life for Chinese citizens through gradual reform. China emerged from the doldrums of backwards communist planning under Mao’s persistent desire for a permanent ideological revolution.<sup>230</sup> Only upon Mao’s death could a new leader emerge and shed truth on the broken economic condition. Deng Xiaoping gradually released China’s pent up of market forces from a backwards economy under the tragically misguided cult-of-Mao.<sup>231</sup>

The gradual reforms allowed China’s economy to flourish; but more importantly, the slow pace allowed the Party to adjust institutions when social grievances threatened authoritarian reign. China’s dual-track system, increased local autonomy, and a rational-legal framework created conditions for a steady economic liberalization. Of China’s astonishing results, Dwight Perkins noted, “per capita income has risen more than seventeen fold during the most recent three-plus decades beginning in 1979.”<sup>232</sup> Even though its path to economic growth was much different than the other Asian “Miracle-countries,” China advanced on par with its highest performing regional competitors.<sup>233</sup> The socioeconomic grievances that arose throughout the 1980s culminated in the Tiananmen incident, but the Party shrewdly responded to this dark episode by creating an even more inclusive economy. A new phase of reform began in 1993, when the Party’s focus became restructuring institutions to suit all market participants. Naughton described this second phase of reform as a “remaking of the institutional setup to make it compatible with a market economy, the dramatic shrinkage of the state sector, and the

---

<sup>228</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 89.

<sup>229</sup> *Ibid.*, 86.

<sup>230</sup> Alice Lyman Miller and Richard Wich, *Becoming Asia: Change and Continuity in Asian International Relations Since World War II* (Stanford: Stanford University Press, 2011), 253.

<sup>231</sup> Krugman, “The Myth of Asia’s Miracle,” 75.

<sup>232</sup> Perkins, *East Asian Development*, 5.

<sup>233</sup> *Ibid.*

creation of conditions enabling fair competition among all market participants.”<sup>234</sup> This adaptive approach to institutional realignment ensured even more recipients benefited from the country’s growth, especially the first wave of middle class.

Unleashing market constraints for such a massive population soon catapulted China’s imports and exports to the top of the global leaderboard. Alice Miller noted that “in 1994 China became a net importer of oil, and by the first decade of the new century it was the second largest oil importer in the world, behind only the United States.”<sup>235</sup> The phenomenon of unbridled demand carried over to more than just commodities. By 2006, China’s trade volume was sixty times more than it was in 1978.<sup>236</sup> On the export side, China became the world’s manufacturing workshop. Susan Shirk observed that China is the leading producer of steel, accounting for more than one-third of global production.<sup>237</sup> With its cheaper manufacturing costs, China also fed the consumer demand in America. Shirk showed that “Forty percent of the consumer goods Americans buy from abroad are produced in China.”<sup>238</sup> As such, China’s growth was in no small way due to its dominant comparative advantage in manufacturing cheap goods to the insatiable American consumer. As Chinese incomes rose and the first wave of middle class grew wealthier, the Party eventually encouraged domestic consumption as a means of furthering growth. This modern push to rebalance China into a consumption economy will face a deeper examination in a later section of this chapter. At this point, one should note that China’s economic growth was experimentally unique, and the Party’s approach was inclusive enough to ward off a sustained movement against the authoritarian regime.

### C. POLITICAL TENSIONS: MAJOR FAULT LINES

To be sure, Deng’s reforms caused their share of negative economic consequences associated with overexpansion and inflation.<sup>239</sup> It should also be noted that it is difficult

---

<sup>234</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 86.

<sup>235</sup> Miller and Wich, *Becoming Asia*, 231.

<sup>236</sup> Ibid.

<sup>237</sup> Susan Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2007), 16.

<sup>238</sup> Ibid.

<sup>239</sup> Miller and Wich, *Becoming Asia*, 226.



to determine the veracity of Party-state accounting, which often involves overstated growth and foreign investment figures.<sup>240</sup> Regardless of metric accuracy and despite China's astonishing economic growth, the CCP faces many modern problems that could renew a sustained popular movement toward democracy. As Yun-han Chan noted of the CCP's dilemma, "beneath the veneer of rapid economic growth and political stability, there are myriad simmering social grievances against the government."<sup>241</sup> Many sociopolitical criticisms are still simmering inside the Middle Kingdom today. If economic conditions worsen as growth levels off in China, then the potential for democratization movements to arise would increase significantly. One observer mused "Mao Zedong got pretty far in life by acting on his observation (in 1930) that 'a single spark can start a prairie fire.'"<sup>242</sup> To highlight factors that could become catalysts for democratization, this chapter now briefly highlights some of the major political tensions between the Chinese population and the CCP. Specifically, the following section will examine the Party's suppression of Tiananmen, inequality, party corruption, residency, media control, welfare, and environmental issues.

## **1. Suppression of Democratic Starts: Tiananmen**

The ruthless suppression apparatuses of the Chinese Communist Party (CCP) did not cease when Deng Xiaoping came to the helm. Guthrie argued that the CCP remained an anchor of stability during the early years of economic reform.<sup>243</sup> Despite the growth, social unrest festered into situations remarkably similar to that of Korea on the precipice of democracy. Describing the prelude to Tiananmen, Naughton wrote "urban discontent in 1989 was fueled by a number of factors: rising inflation that eroded real incomes, anger at corruption and arbitrary privilege, and rising expectations about political and economic change."<sup>244</sup> Significant to this thesis, most of these conditions also existed in

---

<sup>240</sup> Krugman, "The Myth of Asia's Miracle," 75.

<sup>241</sup> Yun-han Chu, "China and East Asian Democracy: The Taiwan Factor," *Journal of Democracy* 23 (2012): 48.

<sup>242</sup> Martin King Whyte, *Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China* (Stanford, CA: Stanford University Press, 2010), 67.

<sup>243</sup> Guthrie, "China and Globalization," 407.

<sup>244</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 98.

years preceding the ROK's protests of 1987. In yet another parallel, Beijing students led the protests in response to the death of a reformer, Hu Yaobang.<sup>245</sup> In a final parallel to the ROK, "the sense that political promises had been betrayed and political reforms were running off the tracks fueled a powerful sense of disillusionment and protest."<sup>246</sup> With these striking similarities between China and Korea, one could be forgiven for assuming the end of authoritarian rule was near in the Middle Kingdom. As is well-known, however, the Tiananmen uprising did not usher in Chinese democracy. Under Deng's orders, the military cleared the square by force and infamously murdered its own citizens to suppress popular dissent.<sup>247</sup> In what could have proved to be a galvanizing turning point for the Chinese population against the CCP, the Party instead responded with masterful additional economic reforms and successfully maintained power.

Tiananmen was yet another watershed moment for the Party's first half-century, and the CCP's inclusive institutional adjustments thereafter helped to bring the country back on track. Doubling down on the earlier reform effort dubbed "reform without losers," the government response to Tiananmen created less disadvantaged in both the urban and rural domains.<sup>248</sup> Naughton summarized this inclusive approach:

Rural residents gained from the dissolution of collective, improved agricultural prices, and the rapid growth of nonagricultural production in the countryside. Urban residents gained either because they were able to exploit new niches in the economy or because their economic position was protected by continuing government support for state enterprises. The broad enjoyment of the benefits of reform—and the absence of a group clearly disadvantaged by reform—meant that reform was still widely popular despite the debacle at Tiananmen Square.<sup>249</sup>

Despite the minimization of disadvantaged sectors in these reforms, the increasing number of modern protests suggests that Chinese remain frustrated with authoritarian

---

<sup>245</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 98.

<sup>246</sup> *Ibid.*, 87

<sup>247</sup> *Ibid.*, 98.

<sup>248</sup> Lawrence J. Lau, Yingyi Qian and Gerard Roland, "Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition" *Journal of Political Economy*, 108 (February 2000), 121.

<sup>249</sup> Naughton, *The Chinese Economy: Transitions and Growth*, 99.

rule. Moreover, Tiananmen remains a scar of ruthless Party suppression and sparks annual remembrance vigils.

## 2. Inequality

China's inequality is one of the most prominent points of tension in modern China. Jie Chen's research results showed "the population across class divides perceives the rapidly widening gap between rich and poor and the increasingly rampant official corruption as China's most detestable social issues."<sup>250</sup> This gap is more scientifically captured in the country's unusually high Gini coefficient. The veracity of the Gini number reported by the PRC's government is highly disputed. For example, the Party reported a Gini Index of .474 in 2012, whereas other studies pegged the Gini coefficient in the same year at .610.<sup>251</sup> Government truth-telling aside, both of these numbers demonstrate a wealth distribution-curve deviation highly skewed towards inequality.

This inequality continues to grow along the rural-urban divide. Albert Park noted, "China's economic growth is being driven by rapid urban development in coastal areas that threaten to leave the rest of China behind."<sup>252</sup> The disparity is especially noticeable within the rural sector, which feels increasingly left out of recent prosperity.<sup>253</sup> Underscoring the divide, Shirk wrote "the per capita income of urban residents is now 3.23 times that of rural dwellers compared to 2.57 that of rural dwellers back in 1985."<sup>254</sup> In order for the rural population to tap into this urban-coastal wellspring of foreign direct investment and global production chains, lower-class rural labors migrate to these cities. Park suggested that the labor flow response is not occurring quickly enough to dampen wage and productivity gaps.<sup>255</sup> To be sure of this tension, Martin King White's research discovered that most Chinese are not concerned about inequality when they perceive their

---

<sup>250</sup> Chen, *A Middle-class Without Democracy*, 87.

<sup>251</sup> David Zweig, "China's Political Economy," in *Politics in China: An Introduction*, ed. William A. Joseph (New York: Oxford University Press, 2014), 284.

<sup>252</sup> Albert Park, "Rural-Urban Inequality in China," in *China Urbanizes: Consequences, Strategies, and Policy*, ed. Shahid Yusuf and Tony Saich, (Washington DC: The World Bank, 2008), 58.

<sup>253</sup> Shirk, *China: Fragile Superpower*, 20.

<sup>254</sup> *Ibid.*, 30.

<sup>255</sup> Park, "Rural-Urban Inequality in China," 59.

own economic situations as improving.<sup>256</sup> Still, David Zweig cautioned that a serious economic downturn could quickly alter the complacency around the wealth gap into an explosive social issue.<sup>257</sup> To remedy this rural-urban divide, the Party must act to phase out the household registration system (*hukou*) in a responsible manner, allow greater labor mobility, and make high-return investments in rural development and agriculture.<sup>258</sup> All of these remedies are easier to execute in theory than practice. Meanwhile, popular strife continues to simmer around this severely contentious issue.

### 3. Party Corruption

Another major source of anti-regime sentiment today is Party corruption.<sup>259</sup> The perception of state officials looting China's resources for personal gain is a major fault-line with the population.<sup>260</sup> Observers noted two forms of positional exploitation that threaten the Party in particular: "rising venality of office and alliances between corrupt officials and organized crime."<sup>261</sup> Despite evidence supporting claims of collusion and police corruption, these authors did not substantiate the claims of a "local mafia state" problem across China.<sup>262</sup> Recent years, however, revealed several instances of high-level Party officials gambling with state resources in Macau.<sup>263</sup> In 2012 alone, gambling revenues at Macau casinos totaled \$38 billion.<sup>264</sup> Of that total, *The Economist* noted, "70% was spent by VIP clients, including many CCP cadres and mainland-government

---

<sup>256</sup> Whyte, *Myth of the Social Volcano*, 66.

<sup>257</sup> Zweig, "China's Political Economy," 284.

<sup>258</sup> Park, "Rural-Urban Inequality in China," 60.

<sup>259</sup> Andrew J. Nathan, "Authoritarian Resilience," *Journal of Democracy* 14 (2003): 12.

<sup>260</sup> Pei, "Is CCP Rule Fragile or Resilient?," 37.

<sup>261</sup> C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell. *China's Rise: Challenges and Opportunities*. (Washington, DC: Peterson Institute, 2008), 94.

<sup>262</sup> Bergsten et al., *China's Rise*, 94.

<sup>263</sup> Sonny Shiu-Hing Lo, "Hong Kong," in *Politics in China: An Introduction*, ed. William A. Joseph (New York: Oxford University Press, 2014), 454.

<sup>264</sup> The Economist, "China's Ruling CCP Looks to Clean Up Its Act in Macau," *The Economist*. May 7, 2013, accessed January 10, 2016, <http://country.eiu.com/article.aspx?articleid=1720471756&Country=Macau&topic=Politics&subtopic=Forecast&subsubtopic=Political+stability&u=1&pid=603758444&oid=603758444&uid=1>

officials who used state assets or funds to gamble.”<sup>265</sup> To be sure, President Xi recently embarked on a massive campaign to bring these crooked Party officials to justice. Describing Xi’s effort to restore the Party’s image, Evan Osnos wrote “In the name of protection and purity, he has investigated tens of thousands of his countrymen, on charges ranging from corruption to leaking state secrets and inciting the overthrow of the state.”<sup>266</sup> In fact, Chinese covert agents are even successfully hunting and rendering former Party officials hiding within the United States.<sup>267</sup> These efforts are very important to restoring public confidence in the Party. Authors observed that “Public anger over official corruption has been the catalyst for much of the social unrest that has rocked China in recent years and the reason why the Party leadership acknowledges that it is a ‘life and ‘death issue.’”<sup>268</sup> President’s Xi’s continuing efforts to find, repatriate, and bring corrupt officials to justice is a huge success thus far, and can be counted as a legitimizing force for Party reign.

In summary of these two grievances, inequality remains a major problem whereas the Party fares better on tamping down corruption. Objections around these issues are expressed across the spectrum of income earners, but they are most vocally aired among the disadvantaged lower classes.<sup>269</sup> More central to this thesis, the largest source of tension for in the rising middle class is attributed to the lifestyle disparity resulting from the Party’s residency mechanism.

#### **4. Residency**

The household registration system (*Hukou*) creates a notable income and benefits gap between China’s lower middle class and middle class. Ekman described the *Hukou*

---

<sup>265</sup> The Economist, “China’s Ruling CCP.”

<sup>266</sup> Evan Osnos, “Born Red: How Xi Jinping, An Unremarkable Provincial Administrator, Became China’s Most Authoritarian Leader Since Mao.” *The New Yorker*, April 6, 2015, accessed January 10, 2016, <http://www.newyorker.com/magazine/2015/04/06/born-red>.

<sup>267</sup> Mark Mazzetti and Dan Levin, “Obama Administration Warns Beijing About Covert Agents Operating in U.S.,” *New York Times*, August 17, 2015, accessed January 10, 2016, <http://www.nytimes.com/2015/08/17/us/politics/obama-administration-warns-beijing-about-agents>.

<sup>268</sup> Bergsten et al., *China’s Rise*, 97.

<sup>269</sup> Whyte, *Myth of the Social Volcano*, 66.

tension between lower-class migrant urban dwellers and the Party. She wrote, “Two different types of urban dwellers coexist, the permanent residents who are in their majority fully integrated within the consumption society, and non-permanent residents who are not—or are only partially—integrated.”<sup>270</sup> This system encumbers non-residents with low wages and little social protection. Authors point to the many systematic disadvantages these migrants face when attempting to work in cities. William Hurst stated, “Most important, migrants do not have legal rights to work in permanent or formal urban jobs, or even live in the city.”<sup>271</sup>

Beyond a lack of protection and fair wages, *hukou* controls many other lifestyle factors and personal consumption levels. Ekman observed, “*hukou* remains a significant limitation to the urban integration of migrants (leaving them with limited access to housing, medical coverage, school registration for children and other public services provided by the city) and therefore postpones the accession of this population group to the lower middle class.”<sup>272</sup> These migrants witness the benefits bestowed upon the urban residents, and cannot afford that higher lifestyle. Non-resident children cannot enroll in schools within the cities that their parents work, and therefore often cannot obtain strong academic credentials to advance in society.<sup>273</sup>

This tension mirrors the same friction point of consumption disparity found in the ROK case study. As Ekman put it, “they cannot afford an urban resident’s lifestyle, given their income level and limited access to social welfare ... Many of them consume staple products in the city and save most of their disposable income for the family members remaining in the countryside.”<sup>274</sup> Further evidence revealed that these migrants are forced to live in substandard housing, face social bias and difficult working conditions. The harsh conditions include long hours, exposure to toxic chemicals, and highly regimented

---

<sup>270</sup> Ekman, “The Distinctive Features,” 9.

<sup>271</sup> William Hurst, “Urban China: Change and Contention,” in *Politics in China: An Introduction*, ed. William A. Joseph, (New York: Oxford University Press, 2010), 325.

<sup>272</sup> Ekman, “The Distinctive Features,” 10.

<sup>273</sup> Hurst, “Urban China,” 325.

<sup>274</sup> Ekman, “The Distinctive Features,” 10.

labor discipline.<sup>275</sup> To be fair, the *hukou* system is credited with preventing the creation of enormous slums caused by massive urbanization during the Maoist era.<sup>276</sup> Moreover, the government is taking this issue on to an extent. Hurst wrote “in late 2013, it was announced that the *hukou* system would be changed to allow rural residents to move formally to smaller cities.”<sup>277</sup> The future of the Maoist era residency system is too early to call, but it remains a stark example of tensions between the haves and have-nots. It also parallels the ROK’s pre-democratic conditions of a lower income stratum desiring the lifestyle of the next tier, whilst being held back by the government. With its relationship to inequality and consumption, *hukou* stands out among lower middle-class grievances and will be explored further throughout the remainder of this chapter.

## 5. Media Control

Allowing the government to operate in the shadows, the Chinese media remains under the selective censorship of the Party. In addition to the censoring the troublesome content from several daily newspapers, the CCP also quashes attempts of major media infiltration from abroad. For example, the Party forbids the global search and social media behemoths Google and Facebook to operate freely within China. Despite this censorship, the Party allows major television networks to conduct some criticism of local officials with as a means to keep corruption in check.<sup>278</sup> Television is a particularly powerful medium for Chinese to receive information, especially in the countryside where Internet infrastructure has lagged.<sup>279</sup> Rupert Murdoch’s attempt to gain market share illustrated the lengths of Party censorship in this medium during the early 1990s. Weeks after he purchased Hong Kong-based STAR TV in 1993, Murdoch gave a speech on the power of communication technology to threaten totalitarian regimes.<sup>280</sup> STAR TV already penetrated much of China, and Premier Li Ping promptly responded by declaring

---

<sup>275</sup> Hurst, “Urban China,” 326.

<sup>276</sup> Ibid.

<sup>277</sup> Ibid., 327.

<sup>278</sup> Bergsten et al., *China’s Rise*, 100.

<sup>279</sup> Shirk, *China: Fragile Superpower*, 88.

<sup>280</sup> James McGregor, *One Billion Customers: Lessons From the Front Lines of Doing Business in China* (New York: Wall Street Journal Books, 2005), 190.

private satellite dish ownership illegal.<sup>281</sup> Murdoch eventually landed a joint-venture television station called Phoenix TV, which is now ironically favored by the Communists Party for its nationalistic edge.<sup>282</sup> Shirk found that by the year 2000, 95% of Chinese owned a television and two-thirds of those were connected to cable.<sup>283</sup> Through this powerful medium, Shirk noted, “China Central Television (CCTV) is considered the most authoritative television network.”<sup>284</sup> Investigative journalism is allowed to an extent, but there are non-permissible topics. Shirk summarized them:

But anything related to individual leaders, the Communist Party, democracy, political reforms, protests, discussions in government meetings, the 1989 Tiananmen demonstrations, human rights, Falun Gong, religion, corruption at the top, Taiwan, Tibet, and other topics that the Propaganda Department considers politically sensitive because they could subvert Party power, is forbidden.<sup>285</sup>

Thus, media content is stifled when it touches one of these third-rail issues, and the Party’s image overtly receives little scrutiny. This is a powerful mechanism to control popular thought, but it also continues to be a source of tension against authoritarian rule.

## **6. Welfare**

The CCP must also navigate a host of other demographic challenges in the near future, including welfare challenges. There is growing popular concern over future financial security. Partially as a result of the Party-imposed one-child policy, an aging Chinese population is poised to put severe pressure on the pension and healthcare systems over the next two decades.<sup>286</sup> Shirk summarized the problem through the following numerical projection: “As the number of people over sixty years old multiplies from one hundred twenty-eight million in 2000 to three hundred fifty million in 2030, the demographic shift will put a heavy burden on China’s pension and health-care systems

---

<sup>281</sup> McGregor, *One Billion Customers*, 190.

<sup>282</sup> Shirk, *China: Fragile Superpower*, 89.

<sup>283</sup> *Ibid.*, 88.

<sup>284</sup> *Ibid.*

<sup>285</sup> *Ibid.*, 90.

<sup>286</sup> Yu Liu and Dingding Chen, “Why China Will Democratize,” *The Washington Quarterly* 35 (2012): 42.



unless they are shored up between now and then.”<sup>287</sup> Richard Jackson observed the uniquely difficult nature of China’s aging population problem, writing “China’s age wave will arrive in a society that is still developing and modernizing—and that has not yet fully implemented the social protections of a modern welfare state.”<sup>288</sup> These concerns are already reflected on Chinese minds, as the country’s high savings rate is attributed to the lack of welfare apparatus. As such, the population is relying less on the Party and more on their own savings and investment for future security. Among lower earners, this self-reliance puts a difficult strain on household budgets. The PRC government is keenly aware that a failure to provide welfare presents significant risks of social instability.<sup>289</sup>

## **7. Environmental Issues**

Yet another sociopolitical tension revolves around pollution. Shirk contended “life-threatening environmental problems are stirring popular discontent and violent protests that could short-circuit economic development.”<sup>290</sup> Elizabeth C. Economy summarized the environmental woes in a 2007 essay for *Foreign Affairs*. She reported that China “has become a world leader in air and water pollution and land degradation and a top contributor to some of the world’s most vexing global environmental problems, such as the illegal timber trade, marine pollution, and climate change.”<sup>291</sup> The Party made recent strides toward long-term pollution curbs, but problems still remain a source of immediate concern. In the short term and generally speaking, clean energy is monetarily more expensive for a country’s industrial base and energy sector to pursue. Thus, there is little rational incentive for a Party that pursued economic growth above all to move away from cheaper energy sources.

Beyond the basic economics of this contentious issue, Economy wrote about the difficulties hampering CCP policy implementation on this issue. Explaining the pollution

---

<sup>287</sup> Shirk, *China: Fragile Superpower*, 20.

<sup>288</sup> Richard C. Jackson, “Can an Aging China Be a Rising China?,” *China Business Review* 38:2 (April 2011): 33.

<sup>289</sup> Jackson, “Can an Aging China,” 33.

<sup>290</sup> Shirk, *China: Fragile Superpower*, 18.

<sup>291</sup> Elizabeth C. Economy, “The Great Leap Backward?” *Foreign Affairs*, 86:5 (September/October 2007): 38.

problem, she noted “the situation continues to deteriorate because even when Beijing sets ambitious targets to protect the environment, local officials generally ignore them, preferring to concentrate on further advancing economic growth.”<sup>292</sup> Since local officials promotions are tied to economic growth, they remained logically inclined to disregard the central authorities’ policy.<sup>293</sup> In this regard, a major public health concern is going unaddressed (or ineffectually addressed) by the Party. Popular tension over this issue pours out in the form of increasingly frequent protests.<sup>294</sup>

This section has highlighted a few major tensions points between the Chinese people and their authoritarian government. Exploring many other fault lines is possible, but well beyond the scope of this thesis. Despite the seemingly simmering cauldron of many modern social, economic, and political grievances, the water has not boiled over into a sustained movement toward democracy.<sup>295</sup> Seldom studied as a driver of democracy, the consumption variable offers insights into tensions created by lifestyle disparities. The evolution of Chinese middle-class consumption behavior across different time periods will now be explored in greater depth.

#### **D. CONSUMPTION IN MAO-ERA CHINA**

While a small yet ambitious middle class existed during the waning days of Nationalist reign over Mainland China, the Communist Party’s subsequent de-stratification efforts quashed the identity-differentiating tool of consumption until the post-Mao era.<sup>296</sup> Just prior to the CCP’s ascent to national power in 1949, scholars pegged the Chinese middle class at 3% of the total population.<sup>297</sup> While the slice of middle-earners appeared paltry during that time, the group still enjoyed some economic and political independence under the Nationalist party.<sup>298</sup> This small subset was also

---

<sup>292</sup> Economy, “The Great Leap Backward?,” 38.

<sup>293</sup> Shirk, *China: Fragile Superpower*, 34.

<sup>294</sup> Ibid.

<sup>295</sup> Ibid., 56.

<sup>296</sup> Chen, *A Middle-class Without Democracy*, 47.

<sup>297</sup> Ibid., 45.

<sup>298</sup> Ibid., 46.

described as self-determined in lifestyle ambitions and occupational advancement.<sup>299</sup> As such, one can safely deduce that higher incomes and consumption abilities differentiated the middle-class lifestyles beyond those of lower socioeconomic classes. Nevertheless, the sweeping reforms of the Communist Party nullified the middle-class consumption variable almost immediately.

Testing consumption behavior, as a variable driving political reform, generally requires a political economy whereby personal property rights, accumulation of wealth, and heterogeneous lifestyles are permissible. As the second chapter's literature review demonstrated, the CCP continuously decimated these capitalistic elements throughout the Mao-era. The homogenization of consumption during this period is attributed to the state-controlled rationed distribution of goods and services, as well the Party's scorn for middle-class consumption patterns and lifestyles.<sup>300</sup> Jie Chen recorded that "during the Cultural Revolution, a middle-class lifestyle was considered as a key indicator of class enemies."<sup>301</sup> Under such scrutiny, the highly educated and managerial stratum paradoxically sought to adopt the consumption patterns of the lower class. During the Mao era, the horizontal link between consumers and producers was severed under the Party-state's redistributive economy.<sup>302</sup>

After it nationalized private businesses in 1956, the CCP's restructuring of the political economy virtually standardized consumption patterns across China for several decades. As discussed in chapter two, the Mao era government-dependent landscape of work units (*danwei*), state owned enterprises (SOEs), and a household registration system (*hukou*) dictated consumption in the daily lives of Chinese.<sup>303</sup> Zhou Xiaohong and Qin Chen explained "resource transference and income distribution were realized through a vertical, multistratum bureaucratic system, running from the center to local

---

<sup>299</sup> Deborah S. Davis, "Social Class Transformation in Urban China: Training, Hiring, and Promoting Urban Professionals and Managers after 1949," *Modern China* 26 (2000): 251.

<sup>300</sup> Martin King Whyte, "Inequality and Stratification in China," *China Quarterly* 64 (1975): 684.

<sup>301</sup> Chen, *A Middle-class Without Democracy*, 49.

<sup>302</sup> Xiaohong Zhou and Qin Chen, "Globalization and China's Middle Class," in *China's Emerging Middle Class: Beyond Economic Transformation*, ed. Cheng Li (Washington: Brookings Institution Press, 2010), 92.

<sup>303</sup> Hurst, "Urban China: Change and Contention," 320.

governments.”<sup>304</sup> Such deep government penetration into society affected nearly every aspect of Chinese life. William Hurst noted that these institutions “provided not simply jobs, but also housing, health care, education, day care, pensions, restaurants, shopping, and vacation resorts, for their members.”<sup>305</sup> Beyond consumption, the elements of this system provided proximity advantages to urbanites over the rural population.<sup>306</sup> In sum, the CCP, prior to Deng Xiaoping’s reforms, imposed uniform consumption through its social and political design.

## **E. CONSUMPTION IN POST-MAO CHINA**

The economic reforms begun under Deng Xiaoping initiated the construction of a middle class and reintroduced social stratification among the Chinese. A market pricing system requires “that users of production factors reward their providers according to the factors’ market prices or their contributions to the ultimate product.”<sup>307</sup> This reward system is credited with differentiating income levels, broadening inequality, and allowing an initial wave of people to get rich.<sup>308</sup> The arrangement “widened the income gap among groups and among individuals of the same group, as evidenced by the rise of the Gini coefficient from 0.21 in the 1960s, to 0.33 in the 1980s, and finally to the present figure of .458.”<sup>309</sup> As explored earlier, the swift rise of inequality during the reform period accounts for a major source of social tension today. The unequal distribution of rapid economic growth across China’s income strata also mirrored the situation in the years preceding democratization in the ROK. Still, this differentiation among household incomes allowed higher income earners to assume the role and consumption patterns of China’s new middle class.

The initial wave of post-Mao middle-class Chinese deliberately forged their self-identity through consumption behavior for the first time in three decades. Consumption

---

<sup>304</sup> Zhou and Chen, “Globalization and China’s Middle Class,” 92.

<sup>305</sup> Hurst, “Urban China,” 321.

<sup>306</sup> *Ibid.*, 320-22.

<sup>307</sup> Zhou and Chen, “Globalization and China’s Middle Class,” 92.

<sup>308</sup> *Ibid.*

<sup>309</sup> *Ibid.*, 93.

among the new middle class provided “patterns that embody a change of lifestyle and therefore constitute the micro, or psychological, mechanics of their constructing a self-identity and winning social recognition.”<sup>310</sup> New consumption ability, through higher incomes, provided the means for Chinese to self-identify as middle class.<sup>311</sup> Between 1978 and 2005, the average Chinese worker’s annual income doubled almost every five years.<sup>312</sup> This GDP boom in the three decades following Deng’s reforms reignited the desires for social status and self-identity through enhanced consumption.

As the Post-Mao era began, the CCP encouraged consumption as a means of protecting legitimacy. The Party’s push for consumption initially sought to undo decades of government-imposed economic backwardness and maintain political power. The CCP designed its gradual economic restructuring with the intent of releasing state-controlled wealth slowly. This slow economic liberation allowed well-positioned individuals to accumulate private wealth much faster than the rest of the country. Deng’s reforms shifted wealth down from the central government in order to raise the masses out of poverty. Ning Wang pointed out a series of post-Mao policies, “including salary raises, industrial restructuring, and lowering the rate of accumulation, were carried out in order to eradicate the disastrous after effects of the Maoist Revolution, to improve people’s living conditions and overcome the legitimacy crisis.”<sup>313</sup>

While life improved for hundreds of millions of Chinese, massive wealth also fell into the hands of a small, newly enriched stratum. More importantly, these sweeping changes effectively unleashed consumption and lifted the dark stigma associated with a middle-class lifestyle during the Mao-era. At first the middle class was an exclusive stratum, which could only be achieved by those in fortunate positions to take advantage of capitalist reforms. During the 1990’s, the Party aligned itself even more with the notion that middle-class consumption would boost the national economy.<sup>314</sup>

---

<sup>310</sup> Zhou and Chen, "Globalization and China's Middle Class," 93.

<sup>311</sup> Ibid., 94.

<sup>312</sup> Ibid., 93.

<sup>313</sup> Ibid.

<sup>314</sup> Ibid., 95.

Party intervention spurred consumption again in the wake of a global market disruption, and this government reassurance initiated new consumption behaviors among the Chinese middle class. After the 1997 Asian financial crisis, the CCP encouraged domestic consumption to shore up slowing growth within the Chinese economy.<sup>315</sup> Summarizing this effort, Zhou and Qin detailed how the “central government proposed that new consumption highlights such as housing should be created; residence construction should be made a key industry; and consumption of telecommunication, tourism, culture, entertainment, health care and other tertiary industries should be encouraged.”<sup>316</sup> This push spurred development, drove higher-levels of economic growth, and led to the creation of today’s many uninhabited “ghost-cities.”<sup>317</sup> While the future consequences of these empty metropolises remain unclear, the Party-endorsed encouragement also spurred a middle-class consumption movement around real estate investment that will be explored in a later section. Under President Xi’s present vision, the CCP is pushing an accelerated middle-class urbanization process to encourage ever-greater domestic consumption. Ekman asserted the CCP is aimed at “supporting the development of the middle class and ultimately help rebalance the current economic model towards domestic consumption, reducing dependence on exports and state investments.”<sup>318</sup> As the Party shifts the state’s economy towards consumerism, the rising Chinese middle class will play a vital role in this process. This chapter now addresses the defining features of the modern middle class in China.

## **F. CHINA’S RISING MIDDLE CLASS**

Understanding the perspective of China’s rising middle class is critical to explaining for the stratum’s behavior towards democratization. Since the Chinese middle class does not adhere to the expectations of modernization theory to date, it is also important to examine research findings that illuminate their attitudes towards political

---

<sup>315</sup> Zhou and Chen, "Globalization and China's Middle Class," 94.

<sup>316</sup> Ibid.

<sup>317</sup> Kenneth Rapoza, “What Will Become Of China's Ghost Cities?,” *Forbes Magazine Online*, July 20, 2015, accessed January 15, 2016, <http://www.forbes.com/sites/kenrapoza/2015/07/20/what-will-become-of-chinas-ghost-cities/#2715e4857a0b7f29980c751b>

<sup>318</sup> Ekman, “The Distinctive Features,” 2.

change, personal success, and their desired lifestyles. The following sections examine each of these components before determining the overall impact of middle-class consumption upon democratization.

### **1. Attitudes Toward Political Change**

The modern Chinese middle class come from a variety of backgrounds, and this social stratum views their political surroundings through their individual experiences. In order to understand how the middle-class views political change, it is appropriate to first discover how this group views itself. In an attempt to discover the lower and middle-class support for democratic reform and the CCP, Jie Chen conducted a probability sample survey of these strata across three cities.<sup>319</sup> The empirical findings offered insight into the theoretical and political implications of the middle-class perspective. His study looked at attitudes toward democracy, measuring norms such as political liberty, popular participation, and competitive elections of government leaders.<sup>320</sup> Overall the survey findings revealed a nuanced, if not peculiar attitude towards democracy:

On the one hand, like most of the lower class people, most members of the Chinese middle class are vigilant about the individual rights that are closely related to their own interests. On the other hand, however most members of this class are not willing to claim their political rights (such as engaging in public demonstration and forming their own organizations) if such rights could possibly disrupt social order; they are not disposed to have a say in government affairs and to play a role in initiating a political change; they seem to support competitive elections only within the current one-party-dominated and controlled electoral system. From a comparative perspective, it has also been found that the middle class as a whole is even less supportive of democratic principles and institutions in these areas than is the lower class.<sup>321</sup>

These research findings are utterly fascinating to students of modernization theory, revealing the middle class' perspective of their government. The survey results suggested that self-interest, under a strong social order, trumps the quest for individual liberties. Political participation, if thought of at all, appeared to be tangential to the main

---

<sup>319</sup> Chen, *A Middle-class Without Democracy*, 67.

<sup>320</sup> Ibid., 68.

<sup>321</sup> Ibid., 77.

concerns of this class—their own interests and future prospects. Where is this self-interest derived from?

## **2. Success: Money And Social Status**

McKinsey consultants studied the next wave of China's middle class and outlined the drivers and expectations this second generation of relative wealth. Authors of a 2013 report dubbed this group "Generation 2" (G2), which consists of 200 million consumers and accounts for 15 percent of urban consumption in China. Defining G2 individuals, analysts wrote "these G2 consumers today are typically teenagers and people in their early 20s, born after the mid-1980s and raised in a period of relative abundance." This young cohort is also shaped by the dynamic of being an only child, which resulted from the Party's one-child policy encompassing their birth-years.<sup>322</sup> The report continued to describe G2 individuals as "confident, independent minded, and determined to display that independence through consumption."<sup>323</sup> Differing from previous generations, the next wave of middle class came of age in a stratified Chinese society capable of heterogeneous lifestyles and purchasing.<sup>324</sup> With regards to the specific consumption, G2 consumers are "prone to regard expensive products as intrinsically better than less expensive ones . . . seeking emotional satisfaction through better taste or higher status, are loyal to brands they trust, and prefer niche over mass brands."<sup>325</sup> Finally, this cohort primarily defines success through money and social status.<sup>326</sup> One observer wrote that Chinese households "have the impression of having been 'upgraded' to a social status that is not theirs and fear returning to the status they previously experiences (poverty or lower-middle class)."<sup>327</sup>

Based on this evidence, specific consumption behaviors already play a major role in defining the next wave's self-identity. For example, Chinese in the modern middle

---

<sup>322</sup> Ekman, "The Distinctive Features," 31.

<sup>323</sup> Barton, Chen, and Jin, "Mapping China's Middle-Class," 4.

<sup>324</sup> Ekman, "The Distinctive Features," 31

<sup>325</sup> Barton, Chen, and Jin, "Mapping China's Middle-Class," 4.

<sup>326</sup> Ibid., 5.

<sup>327</sup> Ekman, "The Distinctive Features," 14.



class purchase homes and automobiles to amass wealth and forge their socioeconomic identity. Zhou and Chen demonstrated that home ownership provided better representation for one's social status than other consumer durables. Early purchasers, especially those in coastal-cities, amassed wealth quickly through these lucrative consumption decisions. Housing prices in China doubled throughout the first ten years of the 21<sup>st</sup> Century, creating a new wave of equity-wealth among the middle class.<sup>328</sup> Private automobile sales also soared five-fold in the seven years following China's 2001 admittance into the WTO.<sup>329</sup> According the Zhou and Chen, "to the Chinese middle-class, private housing and a car not only represent consumer goods with which they can build their self-identity and win social recognition, but also practice fields for molding new notions of consumption."<sup>330</sup> The consumption of these big-ticket durables advanced the middle class' quest to establish an elevated social identity. Underscoring this notion, marketing professionals still attempt to tap into the middle-class desire to separate themselves from the lower income strata.

### **3. Aspirational Lifestyles**

Real-estate advertisements also provided evidence of the link between modern middle-class consumption and identity. In what Zhou and Chen described as a shift from the functional to symbolic value of purchases, advertisers challenge middle-class buyers to acquire homes as a means to enhance their identity. The authors wrote that effective marketing strategies pushed homes "not because they are comfortable, but because they are guaranteed to manifest and promote their owner's social status."<sup>331</sup> Marketers also portray their inventory as those chosen by the highest earning professionals (e.g. bankers, entrepreneurs). These advertisements are successful in courting would-be middle-class buyers.<sup>332</sup> Thus, another firm link exists between consumption and identity in China's middle class.

---

<sup>328</sup> Zhou and Chen, "Globalization and China's Middle Class," 94.

<sup>329</sup> Shirk, *China: Fragile Superpower*, 17.

<sup>330</sup> Zhou and Chen, "Globalization and China's Middle Class," 94.

<sup>331</sup> Ibid., 95.

<sup>332</sup> Ibid.

As thoroughly established throughout this study, consumption practices are outward expressions of Chinese class status. In addition to luxury brands, the upcoming wave of middle class seeks acquaintance to the wider world. Regarding the rising middle class' desire to travel abroad, Ekman wrote "international exposure is for instance a socially recognized sign of middle class belonging . . . they also often enjoy their new status, relation to time and opportunities for leisure, vacations and entertainment products with enthusiasm."<sup>333</sup> In addition to a sense of belonging to a privileged class, foreign travel is an outgrowth of previously restrained practice. Prior to the post-Mao reforms, the Chinese (with some exceptions) were not free to travel abroad.<sup>334</sup> Post-reform, the purchasing of foreign goods is another example of this class exercising their previously restricted consumption behavior. These desires mark yet another increased cost to achieve the middle-class lifestyle.

Occurring in tandem with the growth of China's middle class, the onset of globalization heavily shaped the consumption of China's modern middle class. Beyond the economic growth available to developing countries through international production chains, globalization also shaped the behavior of the new middle class. Zhou and Chen noted the worldwide interconnectedness is responsible for "cultivating an international consumer market and corresponding values, life attitudes, and behavioral patterns based on consumerism."<sup>335</sup> In particular, the scholars point the similar consumption behavior between two socio-politically dissimilar countries--China and India. Zhou and Chen note that these two countries "vary in their origin, political status, occupation, religious belief, and even race, they resemble each other in surprisingly close ways when it comes to constructing their self-identities via consumption."<sup>336</sup> Shaped by globalization-fostered consumerism, the middle classes' purchasing behavior in these two countries aimed to portray success.<sup>337</sup> Underscoring this notion in China, Ekman found "consumption of

---

<sup>333</sup> Ekman, "The Distinctive Features," 2.

<sup>334</sup> Ibid., 17.

<sup>335</sup> Zhou and Chen, "Globalization and China's Middle Class," 97.

<sup>336</sup> Ibid.

<sup>337</sup> Ibid., 96.

foreign brands and goods remains a significant external sign of integration to the lower middle-class population.”<sup>338</sup> The act of consuming a McDonald’s meal or Starbucks coffee, for instance, carries significantly different weight between the lower and middle tiers.<sup>339</sup> Having established the globalized perception of consumption-driven success among the Chinese population, the thesis will now evaluate how tension around middle-class consumption could affect China’s democratization.

## **G. IMPACT OF MIDDLE-CLASS CONSUMPTION**

Susan Shirk alluded to the dangerous nature of a tangible consumption disparity between income strata. She wrote, “The most politically explosive kinds of inequalities actually are the ones people can see with their own eyes, namely the extreme contrast between the lavish lifestyles of the rich and the hardships of the poor evident in every Chinese city.”<sup>340</sup> At the heart of the political pressure-cooker associated with inequality is the very tangible consumption variable. As the previous chapter demonstrated, one major tension among the ROK lower middle classes in the 1980s centered on a visible shift in consumption behavior. The desired middle-class lifestyles became unaffordable, and the non-placated working-class rose to join the ranks of protestors for democratic reform. The same purchasing power disparity of unaffordable middle-class lifestyles could create agitation among the working-class in modern China. First, this section will examine the consumption profile of the middle class.

Akin to the case study of pre-democratic Korea, the makeup of middle-class Chinese consumption profile is rapidly evolving. By 2006, global consulting firm McKinsey reported a major shift in the growing Chinese middle-class’ consumption patterns. According to their decade-old report, “families tend to buy more discretionary and small luxury items, and the share of the household budget that goes toward food, clothing, and other necessities shrinks.”<sup>341</sup> This mirrored the shifting nature of household

---

<sup>338</sup> Ekman, “The Distinctive Features,” 17.

<sup>339</sup> Ibid., 18.

<sup>340</sup> Shirk, *China: Fragile Superpower*, 31.

<sup>341</sup> Diana Farrell, Ulrich A. Gersch, and Elizabeth Stephenson, “The Value of China’s Emerging Middle Class,” *The McKinsey Quarterly* (June 2006): 66.

budgeting found in South Korea prior to democratization. In fact, McKinsey's team made a direct comparison of these two countries with respect to consumption. Consultant research found, "For several years now, urban Chinese consumers have dedicated a smaller share of their household budgets to the basics than South Koreans did at a similar point in their country's economic development."<sup>342</sup> One safe assumption is that a basket of goods with name brands and luxury items is more expensive to obtain than its generic equivalent. Research firm Morningstar also predicted that current Chinese spending on luxury will grow at a rate of 8% per year. As such, this evidence of a shifting and more expensive household spending profile brings a key parallel with the ROK case study forward. It demonstrates a clear link between the two-country comparison and showed that a purchasing shift is already underway among middle-class Chinese.

The cost of the desired middle-class lifestyle is rising, but the incomes of the lower classes are not keeping pace. As a result of their disadvantaged *hukou* position, migrant workers' consumption ability are severely hindered by their unfortunate "outsider" status. The sheer number of migrant workers, approximately 220 million Chinese or 16% of the overall population, makes their discontent a huge potential liability for the Party.<sup>343</sup> Therefore, the lower and lower-middle income classes are institutionally restrained from obtaining the lifestyles of the urban-resident "insiders." Ekman's research confirmed that "the consumption practices of the migrant population living within the cities often remains to some extent similar to the ones they adopted in the countryside (i.e. consuming very little), as they cannot afford an urban resident's lifestyle, given their income level and limited access to social welfare."<sup>344</sup> The income and benefits disparity are blatant to these institutionally underprivileged working and lower-middle class consumers. Illustrating their subsistence level consumption of the migrants, Ekman wrote "many of them consume staple products in the city and save most of their disposable income for the family members remaining in the countryside."<sup>345</sup> This observation

---

<sup>342</sup> Farrell, Gersch, and Stephenson, "The Value of China's Middle Class," 66.

<sup>343</sup> Ekman, "The Distinctive Features," 11.

<sup>344</sup> Ibid., 10.

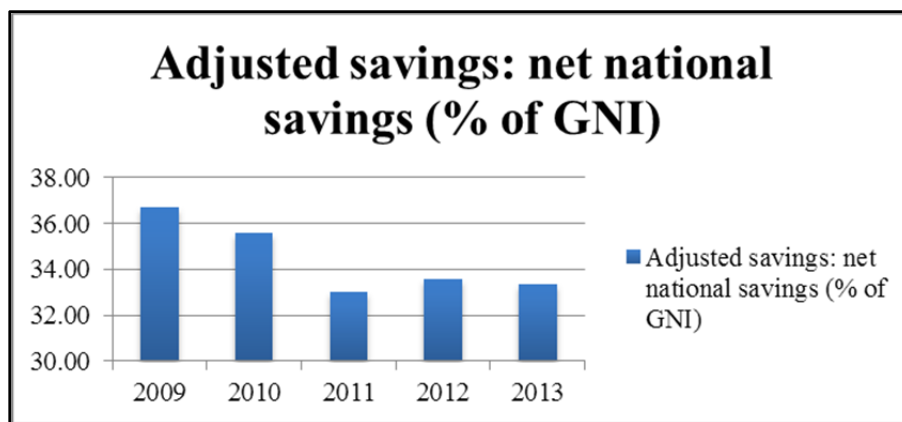
<sup>345</sup> Ibid.

satisfies yet another element of the criteria set forth by the ROK model: lower classes being priced out of an aspirational lifestyle enjoyed by the middle class.

High savings rates among all Chinese demonstrate the anticipation of future hardships, and this is especially true of the increasingly strapped lower and lower middle class. Individuals in the modern Chinese middle class are avid savers. McKinsey found that “today China’s thrifty households tuck away a quarter of their after-tax income—one of the highest saving rates in the world.”<sup>346</sup> McKinsey’s 2006 report correctly predicted a waning in these savings rates, and a steady increase in net consumption across income strata. The World Bank’s most recent available data, 2009–2013, confirmed this prediction.

Figure 4 demonstrates five-years of decreased net savings, from 36% of GNI down to 33%. To be sure, this is a modest decrease, and savings levels remain high. As to why, Ekman found “they save a particular high share of their disposable income in anticipation of hardship, given the underdeveloped welfare system and the rising cost of healthcare, education and housing.”<sup>347</sup> Clearly, there are concerns about the lack of government-sponsored safety nets.

Figure 4. China’s Savings: 2009–2013<sup>348</sup>



<sup>346</sup> Farrell, Gersch, and Stephenson, “The Value of China’s Emerging Middle Class,” 65.

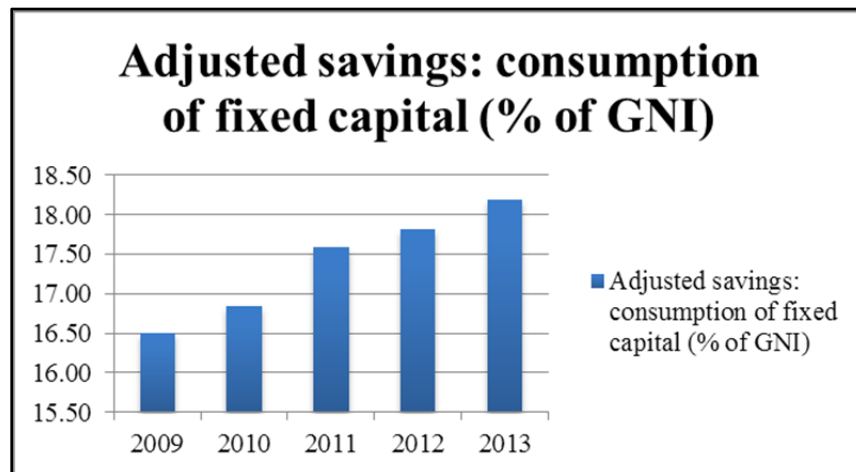
<sup>347</sup> Ekman, “The Distinctive Features,” 2.

<sup>348</sup> World Bank, “Wealth Accounting” (2015), *GNI per capita, Atlas method* [Data file]. Retrieved from <http://data.worldbank.org/data-catalog/wealth-accounting>.

Most acutely feeling that pain associated with the absence of welfare, the largely non-resident lower middle class shoulders a comparatively large burden. As a result of *hukou* constraints, the harsh reality observed of migrants is that their family's first opportunity to join the middle class will not arrive until their second or third generations.<sup>349</sup> Ekman stated "lower-middle class is often struggling to pay for cars, medical bills, mortgages, and their child's education . . . once in adulthood, the only child himself often faces the heavy burden of financially supporting its aging parents and its growing child at the same time."<sup>350</sup> These observations provide even additional proof of an increasingly unaffordable lifestyle for the lower middle class.

While savings rates decreased modestly, a simultaneous increase in aggregate consumption spending suggests that budgets are under even greater strain. Figure 5 shows a modest increase in Chinese consumption, from 16.5% of GNI to 18.2%, during the same five-year time period.

Figure 5. China's Consumption: 2009–2013<sup>351</sup>



<sup>349</sup> Ekman, "The Distinctive Features," 27.

<sup>350</sup> Ibid., 20.

<sup>351</sup> World Bank, "Wealth Accounting."

In aggregate, the country consumed more and saved less over the last five years of available data. To be sure, these data points are also constrained by the inability to access a longer time series. The slight uptick over a short timespan is not conclusively significant by itself; rather, it suggests that scholars should continue to monitor and study the effects of these trends. Inflation hovered around 3 percent during that same time period.<sup>352</sup> Thus, Chinese budgets were squeezed across the five-year period of most recently available data. Central to this argument, the mounting spending requirements on lower middle class earners' balance sheets undoubtedly outpaced their income growth. Moreover, these lower income earners have to compensate for the lack of social benefits afforded to the middle-class residents of wealthy coastal cities.

Taken in conjunction with the absence of welfare apparatuses, and perceived inequities stemming from the PRC government-mandated residency systems, the lower middle class appears ripe for increased levels of political agitation. This pressure on the working and lower middle classes similarly appeared in the South Korean case study. When this consumption disparity mixed with other social grievances, and was punctuated by student led movements, the resulting cocktail inspired protests for political change on the peninsula. Arguably, the same could happen in modern China. Adding to the complexities of this situation is the coming wave of lower middle-class earners into the middle class. As shown in Figure 6, Morningstar predicts "the number of households that the firm identifies as 'lower middle class' will expand from 32 million in 2012 to an estimated 133 million by 2022."<sup>353</sup>

---

<sup>352</sup> World Bank, "Data: Inflation, Consumer Prices, 2009-2013," accessed January 15, 2016, <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>.

<sup>353</sup> Marc Bain, "China's Middle Class is Going to have a Big Impact on Luxury Fashion," *Quartz*, December 20, 2015, accessed December 21, 2015. <http://qz.com/577661/chinas-middle-class-is-going-to-have-a-big-impact-on-luxury-fashion/>.

Figure 6. China's 2022 Projected Income Segments<sup>354</sup>



An increase of one hundred million people into this pressured income stratum could eventually create enough middle-class density to push for more reform. This chapter now examines the reasons this type of large-scale agitation has not occurred to date.

## H. POLITICAL INACTION AMONG CHINA'S MIDDLE CLASS

Several scholars believe the new middle class is widely satisfied and aligned with the Party-state. Ekman witnessed, “For the minority of the population who have already entered the middle classes, there exists a self-perception of being part of the ‘happy few.’”<sup>355</sup> This fortunate stratum experienced liberation from the heavy workloads and financial constraints imposed decades prior.<sup>356</sup> In comparison to the lower classes, the middle class feels like a group of “winners.”<sup>357</sup> Chen observed that “Given the preponderant role that the party-state has played in the post-Mao socioeconomic transformation, the newly emerged middle class has been created and shaped by the state,

<sup>354</sup> Bain, “China’s Middle Class.”

<sup>355</sup> Ekman, “The Distinctive Features,” 16.

<sup>356</sup> Ibid.

<sup>357</sup> Ibid.



and hence is considered to be closely associated with the state.”<sup>358</sup> Through restructuring and reform of the previously collective economy, the state nurtured this new middle class into fruition. Additionally, the state actively recruited members of the middle class to enhance political ties with this important stratum. Chen concluded that these measures, occurring during a formative time of this new social class, greatly shaped the middle class’ perception of the Party.<sup>359</sup> The Party also explicitly links its goals with those of the middle class. President Xi’s “China Dream” is a key example that built upon Deng Xiaoping’s idea of “moderate prosperity.”<sup>360</sup> Summarizing this optimistic concept, Ekman wrote “the ‘China Dream’ mainly alludes to the potential for Chinese households to increase their income and improve their overall living conditions in the coming years, and progressively reaching ‘moderate prosperity’ by 2020 (part of the population) and 2050 (the entire population).”<sup>361</sup> This concept is a message of hope to the lower income classes, as a means to counter anger towards imbalanced development and high inequality. It also shows an alignment with the middle class, offering hope to those who operate within the institutions set forth by the Party.

With respect to the current political order, this thesis has found evidence of a contented Chinese middle class. As a result, the Chinese middle class appears unwilling to participate in the process of democratization. The current middle class also owes its fortunate circumstances to the CCP, and many in this stratum are Party members themselves. Chen also discovered a value-congruence between the middle class and the Party across several political issues.<sup>362</sup> David Goodman similarly found the Chinese middle class to be “far from being alienated from the party-state or seeking their own political voice, and appears to be operating in close proximity and through close cooperation with the Party.”<sup>363</sup> The tension theoretically expected between an

---

<sup>358</sup> Chen, *A Middle-class Without Democracy*, 65.

<sup>359</sup> Ibid.

<sup>360</sup> Ekman, “The Distinctive Features,” 7.

<sup>361</sup> Ibid.

<sup>362</sup> Chen, *A Middle-class Without Democracy*, 95.

<sup>363</sup> David G. Goodman, “The New Middle Class,” in *The Paradox of China’s Post-Mao Reforms*, ed. Merle Goldman and Roderick MacFarquhar (Cambridge: Harvard University Press, 1999), 260-61.

economically growing middle class and its authoritarian regime does not appear at present day. Many entrepreneurs even established their businesses through a new or previous connection to the Party.<sup>364</sup> While their goals appear aligned with the Party, the new middle class views their own political participation as secondary to their primary goals of career advancement and prosperity.<sup>365</sup>

The self-interest borne from the quest for money and social status also yields little political pushback among the middle class. Jie Chen provided more support for the prevailing argument that the middle earners constituted a primarily self-interested group. He wrote, “. . . while the middle class may expect a system of checks and balances that could effectively constrain party power from infringing on their own economic and social interests, they are not ready to support and participate in political changes favoring democracy.”<sup>366</sup>

### **1. Consumerism**

Under the conditions of globalization, Zhou and Chen found a positive relationship between middle-class consumption patterns and political inaction. Their assertion is China’s middle class finds consumerism and personal success to be incongruous with political pushback against the CCP. The authors wrote, “. . . in China . . . inaction by the middle class in political and social matters has been caused by the fact that cultivating public concerns is compatible neither with consumerism, which is being promoted by globalization, nor with the notion of personal success, which is increasingly defined by one’s level of consumption.”<sup>367</sup> According to this theory, higher levels of consumption among China’s middle class actually decrease their desire for democratic reform. This observation directly counters modernization theory, but it certainly helps explain the paradoxical nature of China’s illiberal democracy.

---

<sup>364</sup> Ekman, “The Distinctive Features,” 2.

<sup>365</sup> Ibid., 24.

<sup>366</sup> Chen, *A Middle-class Without Democracy*, 77.

<sup>367</sup> Zhou and Chen, “Globalization and China’s Middle Class,” 97.

## 2. Crisis Intervention

Without adjusting its political control, the Party relies on its control of large cash reserves to both ward off fiscal crises and grows the state's economic capacity.<sup>368</sup> Zhou and Chen described this as a two-part process: "while the socialist state and its agents are actively advancing the market economy, mature market actors and adequate capital owners are equipping the former with an ever stronger capability to adjust the market and grab resources."<sup>369</sup> As an example of this, the CCP invested trillions of Yuan into markets during recent financial crises, thereby increasing the capacity of the state.<sup>370</sup>

In a recent effort to further the economic transformation envisioned in President's Xi's "China Dream," the CCP heavily encouraged middle-class investors to place their capital into China's stock markets over the past several years. Many of these naturally frugal middle-class investors did not foresee downside in market dynamics. In early July 2015, the Shanghai index plummeted 32%.<sup>371</sup> At the time, the New York times reported "Across China, many of the millions of middle-class investors have been asking why the party and the government talked up the market in the months leading up to the recent plunge, and then bumbled in their efforts to prevent the rout."<sup>372</sup> Sensing the pressure of being perceived culpable for \$3.2 trillion in losses, the government responded with a host of anti-capitalist stock market reforms. The Party imposed limits on short-selling, selectively suspended initial public offerings, and ordered interest rates cut by the Central bank.<sup>373</sup> In turn, the government manually shored up losses with massive cash injections into the falling stocks of state-owned firms.<sup>374</sup> The Party's response countered market

---

<sup>368</sup> Zhou and Chen, "Globalization and China's Middle Class," 98.

<sup>369</sup> Ibid.

<sup>370</sup> Ibid.

<sup>371</sup> Edward Wong and Chris Buckley, "Stock Market Plunge in China Dents Communist Party's Stature," *New York Times*, July 9, 2015, accessed January 15, 2016, [http://www.nytimes.com/2015/07/10/world/asia/china-stock-market-crash-communist-xi-jinping.html?\\_r=1](http://www.nytimes.com/2015/07/10/world/asia/china-stock-market-crash-communist-xi-jinping.html?_r=1).

<sup>372</sup> Wong and Buckley, "Stock Market Plunge."

<sup>373</sup> Richard Javad Heydarian, "China's Great Crash: Signs of Trouble?," *Al Jazeera*, July 21, 2015, accessed January 15, 2016, <http://www.aljazeera.com/indepth/opinion/2015/07/china-great-crash-signs-trouble-150714112717323.html>.

<sup>374</sup> Ibid.

forces by deliberately negating losses. Such moves destroy the confidence of foreign investors, but they show the lengths to which the Party will go to keep agitation tamped down. To survive the legitimacy crisis of falling middle-class stock portfolios, the CCP essentially exercised monetary policy with Chinese characteristics. By pumping liquidity into the inevitable fiscal contractions of China's globalized economy, the CCP exercises yet another lever to maintain its powerful political position. This provides even further explanation for the lack of sustained democratization movements among China's middle class. At the same time, it points to the possibility that if the CCP fails in such crisis intervention efforts there could be a groundswell of demand for change.

### **3. Appeasing the Wealthy**

The CCP also co-opts elites and the middle class operating on both sides of the Party's institution structure. The population's drive for democracy can be controlled with adequate safety valves, which include placating the upper income strata. A satisfied elite class provides an anchor of stability for the authoritarian regimes. China's intra-institutional elites enjoy the freedom to pass on their privileged status to the next generation, and the Party provides extra-institutional elites with opportunities to prosper through education.<sup>375</sup> The elites who operate within the law can continue their family's good fortune, while others still hold optimism for a brighter future through hard work. Jie Chen's concluded that "as long as the ruling elite of the state remains determined to maintain the current authoritarian, one-party system, therefore, the middle class is likely to continue to indifferent to democracy."<sup>376</sup> A faltering elite could put strong pressure on the Party, but there is no evidence to suggest the upper echelon's discontentment today. Moreover, Zhou and Chen highlighted a similar pair of safety valves for the middle class:

In this sense, the Chinese middle class is a political rearguard for two reasons. The first is that the state has not loosened its political grip, and the present political structure leaves the middle class little room for action; the second is that the state, through its advancement of the market economy, guarantees economic benefits to the middle class inside and

---

<sup>375</sup> Zhou and Chen, "Globalization and China's Middle Class," 99.

<sup>376</sup> Chen, *A Middle-class Without Democracy*, 90.

outside the institution, which undermines its demand for political change.<sup>377</sup>

This highlights yet another source of social stability for the totalitarian government: contentment among the elite and middle class. With respect to reform pressure, the gradual economic realignment pacified the first wave of rich and middle class in China.

## **I. FUTURE PROSPECTS OF MIDDLE-CLASS DEMOCRATIZATION**

The scholarship and analysis presented in this chapter reflects varying degrees of skepticism around the notion of middle-class democratization in China, on balance making compelling cases against the notion. Zhou and Chen conclude “little prospect of large scale conflicts between the state and the middle class as a result of social transformation.”<sup>378</sup> Elsewhere, scholars arrived at the catastrophic missteps that the Party would have to take to drive sustained movements for reform among the middle-income stratum. Chen wrote, “the state’s enduring failure to deliver economic growth, maintain social stability, and increase or maintain employment/career opportunities and living standards for the middle class may help drive the middle class to support political change toward democracy.” None of this appears likely in the near term; therefore, the middle class does not appear a likely change agent. More promising for future democratization prospects, Chen’s book underscored the timeframe aspect of this assertion. Chen wrote, “in terms of political implications, the new middle class in China *now* (author’s emphasis) is unlikely to serve as an agent or supporter of fundamental political change toward democracy.”<sup>379</sup> Chen’s research found the middle class to be unsupportive of democratic norms and institutions, and less democratically oriented than the lower classes.<sup>380</sup> In other words, the middle class is comfortably situated within the modern institutional apparatus of the Party-state.

---

<sup>377</sup> Zhou and Chen, “Globalization and China’s Middle Class,” 98.

<sup>378</sup> Ibid., 99.

<sup>379</sup> Chen, *A Middle-class Without Democracy*, 90.

<sup>380</sup> Ibid.

As the middle class becomes increasingly younger, others point to the potential for decreasing middle-class membership in the CCP. Ekman characterized this emerging generational difference within the middle class, which could lead to a political restructuring. She wrote:

The new generations of Chinese middle classes may also be to some extent less related to the Party, contrary to their previous generation who often gained access to it through their former cadre position in a government affiliate institution. This is due to the fact that their middle-income position is based on education and professional experience in the private sector rather than political loyalty and experience in the public sector, and this is amplified by the fact that international education and professional experience abroad disconnected them for some time from Party activities.<sup>381</sup>

The author's forecast offered a slightly more promising potential causal mechanism for democratic reform. Still, the consumption disparity occurring at the lower end of the middle class appears to be the most understudied, yet most compelling, avenue for a middle-class unraveling of authoritarian rule. The lower Chinese income classes are increasingly agitated by inequality, poor government regulation, and a lack of social security.<sup>382</sup> In a comparison of political views among the middle and lower classes, Jie Chen found that "the middle class seems to be more supportive of the fundamental values, norms, and institutions of the CCP government than [*lower class*] people."<sup>383</sup> China's lower classes, as observed in pre-democratic Korea, are more inclined towards democratic reform.<sup>384</sup> For instance, there are many recent lower-class protests and clashes against local governments. Zhou and Chen chronicled recent examples of these simmering grievances. They wrote, "Examples of such events include a clash with rubber farmers in Menglian (a county in Yunnan Province), a taxi strike in Chongqing (a city in Southwest China, and a riot by owners of demolished homes in Longnan (a city in Gansu Province))."<sup>385</sup> This evidence of increasingly politically active lower classes, along with

---

<sup>381</sup> Ekman, "The Distinctive Features," 32.

<sup>382</sup> Zhou and Chen, "Globalization and China's Middle Class," 99.

<sup>383</sup> Chen, *A Middle-class Without Democracy*, 84.

<sup>384</sup> *Ibid.*, 90.

<sup>385</sup> Zhou and Chen, "Globalization and China's Middle Class," 99.

the coming wave of entrants into the lower middle class, suggests that change movements could be afoot in the next decade.

## **J. CONCLUSION**

As the ranks of the lower middle class swell, that stratum still remains in a structurally disadvantaged position. The current middle class, many of whom have benefit-laden residency in wealthier cities, live a brand-conscious lifestyle that is desirable yet unattainable to the lower classes. This condition is largely owed to China's *hukou* system, which still affords official residents of China's wealthiest prefecture-level cities and directly administered municipalities with tremendous social benefits over non-urban registrants today. Such consumption disparity, under a high degree of institutional pressure, could become a driver for democratic reform as it did in South Korea. Modernization theory holds that economic growth poses a threat for the CCP, and a growing Chinese economy could still outpace the CCP's ability to meet new societal demands.<sup>386</sup> To date though, the CCP is firmly entrenched despite a growing middle class. Several factors were offered throughout this chapter for the observed political apathy among the Chinese middle class. Many conditions surrounding the modern Chinese middle class appear to mirror those in South Korea during the early 1980s. In the case of Korea, the middle class tipped the scales in favor of democracy. Perhaps the same will occur in China, but only time will tell.

---

<sup>386</sup> Liu and Chen, "Why China Will Democratize," 42.

THIS PAGE INTENTIONALLY LEFT BLANK



## V. CONCLUSION

Under the expectations of modernization theory, scholars have scrutinized various causal factors for democratization throughout the last half-century. While some variables correlated stronger with democratization than others, Barbara Geddes' contemporary reexamination of the subject dismissed many of the previously convincing causal factors. This thesis first surveyed the body of literature pertaining to modernization and consumption theories, China's middle class, and the political economy of democratic transitions. This review revealed that scant research narrowed upon the middle-class consumption variable as a causal factor for democratic transitions under authoritarian conditions. As such, this thesis operationalized the middle-class consumption variable through a cross-country comparison in order to better understand its causal effects upon democratization. This study sought to discover the effects of middle-class consumption patterns on democratization in northeast Asian countries under authoritarian control.

The first case study of this thesis focused on South Korea. The ROK's rapid economic growth occurred under the safe haven of American military security. The country initially pursued an import substitution industrialization model, but a disastrous balance of payments situation forced the country towards the more lucrative export oriented industrialization soon thereafter. In conjunction with a strong authoritarian government, large *chaebol* conglomerates benefited from weakened labor protections and the technocratic guidance of a profit-focused state bureaucracy. Protectionism and late-industrialization also lent to the state's extraordinary economic growth. The rising tide of export-wealth fell disproportionately upon upper income tiers, and this created political tension between the disadvantaged working class and the state's authoritarian government. Research revealed that the ROK's authoritarian regime remained firmly entrenched for decades because of the government's quick suppression of dissidents, a strong alliance between the military and private sector, and skillful political manipulation. The exclusive nature of the economic growth became even more apparent to working class Koreans as a consumption economy blossomed in the 1980s. South Korea's domestic consumers began purchasing fewer necessities in favor of high-value

consumer durables and luxury goods. After tracing the political economy and causal factors behind Korea rapid economic growth, the analysis narrowed upon middle-class consumption. Korea's political economy, particularly the disadvantaged lower middle class, became ripe to demand democratic transition as a result of cronyism and unequal distribution.

Evidence of a major tension emerged in the consumption disparity between lower-middle and middle-class Koreans, and this eventually led to the inclusion of these income strata in protests for democracy. First, the thesis explored the consumption patterns among Korea's middle class prior to their democratic transition. The ROK case study revealed that middle-class consumption acted as a critical casual factor towards democratization. In the decades leading up to the regime-changing protest of 1987, the ROK experienced large and sustained economic growth. This growth was not distributed evenly across income brackets, as it was in Taiwan. Instead, during the five years prior the protest, lower middle-class Koreans became priced out of the middle-class lifestyle they desired. The working class desired to earn higher incomes in order to achieve consumption parity with the middle class. One interesting and suggestive finding came in the qualitative data. A much larger proportion of the Korean population identified as subjectively "middle class" than actually met the objective criteria; suggesting an aspirational desire to identify in the higher income stratum. This tension between the institutionally depressed earnings power and aspirational lifestyles of the lower middle class drove labor protests for higher wages. As a new wave of middle-class earners rose from the lower income tier, consumption behaviors among the middle class diversified from the basic necessities to non-essential luxuries. The new middle class' agitation eventually coalesced with the student movement aimed at removing authoritarian rule. The addition of this large socioeconomic class to the protests finally turned the tide against the authoritarian government. This evidence created an applicable model to gain insight for China's modern democratization prospects.

The case study of Taiwan did not yield a similar causal tension for democratization around middle-class consumption. While its economic growth was comparable to Korea's in size and speed, Taiwan's political economy was structurally

different. Akin to South Korea, Taiwan relied upon American patronage and protection for survival in its early decades. The island also relied upon authoritarian interventions to keep labor protections low, which resulted in competitively low manufacturing wages among the global economy. While shared sacrifice of individual freedoms and social mobility were similar, key differences created less social and political tensions between the Taiwanese and their government. Instead of large conglomerates, Taiwan's export oriented growth relied on thousands of small private enterprises. This key difference created a more equal distribution of the country's newly acquired wealth across income strata. Another key difference came in political leadership. Whereas ROK leaders were mired by cronyism and an unwillingness to relent control, Chiang Ching-kuo took a deliberate step to limit his family's succession of power and create a more inclusive political body in Taiwan. Less tension emerged in Taiwan because of its more evenly spread growth across a multitude of firms and a selfless leader's decision to create more pluralist capacity. As such, Taiwan's more even and less contentious process of democratization serves as the counterpoint to the narrative about the impact of South Korea's and modern China's middle-class consumption on democratization.

With the Korean model in mind, the thesis turned in search of a similar tension among China's modern middle class. Chapter four began with an explanation of reforms and the causal reasons behind China's rapid economic rise in the post-Mao era. Deng Xiaoping's gradual reforms allowed the CCP to remain in power while relinquishing the state's grip over the commanding heights of the economy. Using a "dual-track" system, the state maintained the quotas of a central plan, but also allowed for township and village enterprises to produce beyond the plan for their own gain. The Party allowed also land to be contracted to farming households. The central importance of state owned enterprises was eclipsed by the drive for foreign investment in special economic zones. Private wealth began to amass again inside China through these once forbidden capitalist practices. The ensuing economic growth lifted over 200 million Chinese above the poverty line. While the rising tide lifted certainly lifted all boats, the wealthier population soon found new grievances with the Communist Party. To better understand the popular

frictions inside modern China, the thesis next examined political tensions between the Chinese and CCP.

Among the major fault lines between the Party and Chinese population, this study explored suppression of democratic movements, inequality, party corruption, residency, media control, welfare, and environmental issues. Most pertinent to the question posed by this thesis are the tensions surrounding inequality, residency, and welfare. Owing to the nature of Deng's reforms, inequality is especially pronounced along the rural-urban divide. The majority of rural laborers migrate to work in more prosperous urban markets. These migrant laborers remain under their non-urban *hukou*, which affords them dramatically fewer social protections than those with urban household registrations. China also lacks the protections found in a modern welfare state, and this lack of social safety net puts more severe strain upon low-income earners. In combination, these political tensions create the conditions of a consumption disparity among the middle class. Migrant workers of the lower and lower middle class are encumbered with smaller wages and less social welfare than their urban resident counterparts. The migrant population is also forced to bear the financial hardship of paying out of pocket for elements naturally afforded to urban residents under the *hukou* system. The advantaged urbanites have access to housing, medical coverage, and school registration.

After discovering the most pertinent political tensions around consumption, this study surveyed the evolution of China's middle class and its pre- and post-reform consumption behavior. During the Mao-era, consumption was homogenized under the classless design and ceaseless rectification efforts of the CCP. In the post-Mao era, social stratification emerged again under the economic reforms of Deng Xiaoping. A small middle class began to use their consumption power as a means of establishing self-identity. Consumer durables, such as appliances and televisions, were the initial markers of this higher social status. As the middle class grew, the new markers involved real estate and automobiles. At several points during the post-Mao era, the Party encouraged consumption to stimulate the national economy. Most recently, President Xi's "China Dream" envisions the Middle Kingdom's transition to a consumer economy. The modern

Chinese middle class is consuming global luxury brands now more than ever, but their views toward democracy remain paradoxically complex.

Survey results revealed that China's middle class hold a peculiar attitude towards democracy. Among those surveyed, self-interest trumped individual liberties. Political participation also held lower concern than one's future prospects. Consultant research found that the new generation of middle class defines success through money and social status. Firm links consistently appeared that tied consumption practices to identity among the upcoming wave of middle-class spenders. Thus, middle-class agitation towards authoritarian government did not appear likely based upon the attitudes of this income stratum.

While the current Chinese middle class and their inheritors appear content, the working and lower middle classes are facing a clear consumption disparity with the middle class. Similar to the conditions found in pre-democratic Korea, an overworked class cannot keep pace with the consumption levels of their institutionally advantaged counterparts in the higher income brackets. Lower class Chinese earners are unable to afford the desired middle-class lifestyle, which could prove to be a major liability for the CCP. As a result of their disadvantageous position, non-urban lower middle-class Chinese appear to be the demographic most likely to push for a more liberal political order. Even more concerning for the CCP, the disadvantaged income stratum will grow precipitously in the near term. Projections estimate that one hundred million earners will rise into the lower middle class within the next seven years.

To date, a few reasons underlie the inaction among China's middle class towards democracy. With many among the stratum owing their advantageous socioeconomic status to the Party, China's middle class is considered satisfied and even ideologically aligned with the CCP. The contentment makes this income class unwilling to push for political change. Globalization is also credited for preventing political pushback, which is antithetical to the coveted individual personal success in this stratum of Chinese society. Under this line of thought, researchers found that higher levels of consumption resulting from a globalized economy actually decrease the desire of China's middle class to push for reform. The Party also uses its large cash reserves to intervene in times of fiscal crisis.

The Party's ability to ward off crisis has also allowed it to subtly expand the government's role in the economy. By flooding liquidity into fiscal problems, the Party pacifies the middle class while maintaining its hold on power. Finally, the CCP coopts elites and landed middle class through the institutional structures of the state. Elites who operate within the law are able to pass on their privileged status to their next generations, and the middle class finds intra-institutional optimism through the prospects of education opportunities. As a critical source of regime stability, the Party does not face pressure from these appeased classes of elite.

The final section of the China chapter offered future prospects for middle class led democratization. For many of the reasons listed in the previous paragraph, several authors argued against the possibility of this income stratum leading a charge toward more pluralist governing capacity. To be sure, these same scholars acknowledged a greater likelihood of protests if the Party makes a catastrophic error in maintaining economic growth, social stability, or living standards for the landed middle class. Still others predict that younger generations of middle-class Chinese, with their increasingly international educations private sector reliance, will have less in common with the CCP. The most compelling narrative for middle-class democratization came at the heart of this thesis' findings. At present, the working and lower middle classes are unable to afford the desired middle-class lifestyle. Lacking the advantageous urban residencies, these classes are often compelled to work in the cities without the social and welfare schemes afforded its residents. The visible disparities found between these income classes boil down to an institutional lack of opportunities for the disadvantaged classes. The danger for the CCP occurs when the aspirational and comfortable lifestyle of the middle class becomes a function of birthright. The lower middle class is projected to grow by over 100 million in the next decade. As this structurally disadvantaged group balloons in size, the impact of middle-class consumption could finally lead China toward democracy.

## LIST OF REFERENCES

- Ando, Albert, and Franco Modigliani. "The 'Life Cycle' Hypothesis of Saving: Aggregate Implications and Tests." *American Economic Review* 53 (1963): 55–84.
- Bain, Marc. "China's Middle Class is Going to have a Big Impact on Luxury Fashion." *Quartz*, December 20, 2015. Accessed December 21, 2015.  
<http://qz.com/577661/chinas-middle-class-is-going-to-have-a-big-impact-on-luxury-fashion/>.
- Barma, Naazneen, and Ely Ratner. "China's Illiberal Challenge." *Democracy: A Journal of Ideas* 2 (Fall 2006): 56–68.
- Barton, Dominic, Yougang Chen, and Amy Jin. "Mapping China's Middle-Class." *McKinsey Quarterly* (June 2013): 1–7.
- Bergsten, C. Fred, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell. *China's Rise: Challenges and Opportunities*. Washington, DC: Peterson Institute, 2008.
- Boix, Carles. "Democracy, Development, and the International System." *American Political Science Review* (November 2011): 809–828.
- Chen, Jie. *A Middle-class Without Democracy—Economic Growth and the Prospects for Democratization in China*. New York: Oxford University Press, 2013.
- Chu, Yun-han. "China and East Asian Democracy: The Taiwan Factor." *Journal of Democracy* 23 (2012): 42–56.
- Davis, Deborah S. "Social Class Transformation in Urban China: Training, Hiring, and Promoting Urban Professionals and Managers after 1949." *Modern China* 26 (2000): 251–275.
- Deaton, Angus. "Franco Modigliani and the Life Cycle Theory of Consumption." Paper presented at the *Convegno Internazionale Franco Modigliani, Accademia Nazionale dei Lincei*, Rome, February 17–18, 2005.
- Deyo, Frederic C. *The Political Economy of the New Asian Industrialism*. Ithaca: Cornell University Press, 1987.
- Dong, Won-Mo. "The Democratisation of South Korea: What Role Does the Middle Class Play?" In *Korea Under Roh Tae-Woo: Democratisation, Northern Policy and Inter-Korean Relations*, edited by James Cotton, 74–91. Canberra: Allen & Unwin, 1993.

- Eberstadt, Nicholas. "Taiwan and South Korea: The 'Democratization' of Outlier States." *World Affairs* 155:2 (1992): 80–89.
- Eckert, Carter J. "Authoritarianism and Protest, 1948–1990." In *Korea Old and New: A History*, edited by Carter Eckert, Ki-baik Lee, Young Ick Lew, Michael Robinson, and Edward W. Wagner, 348–388. Cambridge: Harvard University Press, 1990.
- . "Economic Development in Historical Perspective." In *Korea Old and New: A History*, edited by Carter Eckert, Ki-baik Lee, Young Ick Lew, Michael Robinson, and Edward W. Wagner, 389–418. Cambridge: Harvard University Press, 1990.
- Economy, Elizabeth C. "The Great Leap Backward?" *Foreign Affairs* 86:5 (September/October 2007): 38–59.
- Ekman, Alice, "The Distinctive Features of China's Middle-Classes," *Asie.Visions* 69 (June 2014): 1–40.
- . "China's Emerging Middle-class: What Political Impact?" *Asie.Visions* 76 (June 2015): 1–38.
- Farrell, Diana, Ulrich A. Gersch, and Elizabeth Stephenson. "The Value of China's Emerging Middle Class." *The McKinsey Quarterly* (June 2006): 61–69.
- Fenby, Jonathon. *Chiang Kai-Shek: China's Generalissimo and the Nation He Lost*. New York: Carroll & Graf Publishers, 2004.
- Gaddis, John L. "The Strategic Perspective: The Rise and Fall of the Defensive Perimeter Concept" in *Uncertain Years: Chinese-American Relations, 1947–1950*, edited by Dorothy Borg and Waldo Heinrichs, 61–118. New York: Columbia University Press, 1980.
- Geddes, Barbara. "What Do We Know About Democratization After Twenty Years?" *Annual Review of Political Science* 2 (1999): 115–44. Accessed October 1, 2015. [www.annualreviews.org](http://www.annualreviews.org).
- . "What Causes Democratization?" *Oxford Handbooks Online*, (2009) Accessed September 30, 2015. doi: 10.1093/oxfordhb/9780199566020.003.0014.
- Goldstein, Steven M. "The United States and the Republic of China, 1949–1978: Suspicious Allies." Palo Alto: Stanford, February 2000.
- Goodman, David. "China's Coming Revolution." *Research Institute for the Study of Conflict and Terrorism*, 266 (December 1993).
- . "The New Middle Class." In *The Paradox of China's Post-Mao Reforms*, edited by Merle Goldman and Roderick MacFarquhar, 241–261. Cambridge: Harvard University Press, 1999.



- Guthrie, Doug. "China and Globalization," in *The Political Economy Reader: Markets as Institutions*, edited by Naazneen H. Barma and Steven K. Vogel, 399–422. New York: Routledge, 2008.
- Haggard, Stephan M. "Business Politics and Policy in East and Southeast Asia." In *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, edited by Henry S. Rowen, 78–104. London: Routledge, 1998.
- . "Institutions and Growth in East Asia," *Studies in Comparative International Development* 38:4 (December 2004): 53–81.
- . *Pathways From the Periphery*. Ithaca: Cornell University Press, 1990.
- Haggard, Stephan M., and Robert R. Kaufman. *The Political Economy of Democratic Transitions*. New Jersey: Princeton University Press, 1995.
- Heydarian, Richard Javad. "China's Great Crash: Signs of Trouble?" *Al Jazeera*, July 21, 2015. Accessed January 15, 2016.  
<http://www.aljazeera.com/indepth/opinion/2015/07/china-great-crash-signs-trouble-150714112717323.html>.
- Huntington, Samuel P. *The Third Wave: Democratization in the Late Twentieth Century*. Norman: University of Oklahoma Press, 1991.
- Hurst, William. "Urban China: Change and Contention." In *Politics in China: An Introduction*, edited by William A. Joseph, 320–341. New York: Oxford University Press, 2010.
- Im, Hyug Baeg. "South Korean Democratic Consolidation in Comparative Perspective." In *Consolidating Democracy in South Korea*, edited by Larry Diamond and Byung-Kook Kim, 21–52. Boulder: Lynne Rienner Publishers, 2000.
- Jackson, Richard C. "Can an Aging China Be a Rising China?" *China Business Review* 38:2 (April 2011): 32–35.
- Johnson, Chalmers. "The Democratization of South Korea: What Role Does Economic Development Play?" In *Korea Under Roh Tae-Woo: Democratisation, Northern Policy and Inter-Korean Relations*, edited by James Cotton, 92–107. Canberra: Allen & Unwin, 1993.
- . "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan" in *Political Economy of the New Asian Industrialism*, edited by Frederic C. Deyo, 136–164. Ithaca: Cornell University Press, 1987.
- Kim, Kwan Bong. *The Korea-Japan Treaty Crisis and the Instability of the Korean Political System*. New York: Praeger Publishers, 1971.

- Krugman, Paul. "The Myth of Asia's Miracle." *Foreign Affairs* 73:6 (Nov/Dec1994): 62–78.
- Lau, Lawrence J., Yingyi Qian, and Gerard Roland. "Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition." *Journal of Political Economy* 108 (2000): 120–143.
- Li, Cheng. *China's Emerging Middle-class: Beyond Economic Transformation*. Washington DC: Brookings Institution Press, 2010.
- Lipset, Seymour Martin. *Political Man; The Social Bases of Politics*. Garden City, N.Y.: Doubleday, 1960.
- List, Friedrich. "The National System in Political Economy," in *The Political Economy Reader: Markets as Institutions*, edited by Naazneen H. Barma and Steven K. Vogel, 63–86. New York: Routledge, 2008.
- Lo, Sonny Shiu-Hing. "Hong Kong." In *Politics in China: An Introduction*, edited by William A. Joseph, 452–467. New York: Oxford University Press, 2014.
- Lynn, Hyung Gu. *Bipolar Orders: The Two Koreas Since 1989*. New York: Zed Books, 2007.
- Mazzetti, Mark, and Dan Levin. "Obama Administration Warns Beijing About Covert Agents Operating in U.S." *New York Times*, August 17, 2015. Accessed January 10, 2016. <http://www.nytimes.com/2015/08/17/us/politics/obama-administration-warns-beijing-about-agents>.
- McGregor, James. *One Billion Customers: Lessons From the Front Lines of Doing Business in China*. New York: Wall Street Journal Books, 2005.
- Miller, Alice Lyman, and Richard Wich. *Becoming Asia: Change and Continuity in Asian International Relations Since World War II*. Stanford: Stanford University Press, 2011.
- Moore, Barrington. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press, 2010.
- Liu, Yu, and Dingding Chen. "Why China Will Democratize." *The Washington Quarterly* 35 (2012): 41–63.
- Naughton, Barry. *The Chinese Economy: Transitions and Growth*. Cambridge: The MIT Press, 2006.
- Nathan, Andrew J. "Authoritarian Resilience." *Journal of Democracy* 14 (2003): 6–17.

- Osnos, Evan. "Born Red: How Xi Jinping, An Unremarkable Provincial Administrator, Became China's Most Authoritarian Leader Since Mao." *The New Yorker*, April 6, 2015. Accessed January 10, 2016.  
<http://www.newyorker.com/magazine/2015/04/06/born-red>.
- Park, Albert. "Rural-Urban Inequality in China." In *China Urbanizes: Consequences, Strategies, and Policy*, edited by Shahid Yusuf and Tony Saich, 41–64. Washington DC: The World Bank, 2008.
- Pei, Minxin. "Constructing the Political Foundations of an Economic Miracle." In *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, edited by Henry S. Rowen, 39–59. London: Routledge, 1998.
- Perkins, Dwight H. *East Asian Development: Foundations and Strategies*. Cambridge: Harvard University Press, 2013.
- . *Economics of Development*. New York: W.W. Norton, 2001.
- Qian, Yingyi. "How Reform Worked in China." In *In Search of Prosperity: Analytic Narratives on Economic Growth*, edited by Dani Rodrik, 297–333. Princeton: Princeton University Press, 2003.
- Rapoza, Kenneth. "What Will Become Of China's Ghost Cities?" *Forbes Magazine Online*, July 20, 2015. Accessed January 15, 2016.  
<http://www.forbes.com/sites/kenrapoza/2015/07/20/what-will-become-of-chinas-ghost-cities/#2715e4857a0b7f29980c751b>
- Rostow, Walt Whitman. *The Stages of Economic Growth; A Non-Communist Manifesto*. New York: Cambridge University Press, 1990.
- Savada, Andrea Matles. *South Korea: A Country Study*. Washington, DC: Library of Congress, 1992.
- Schaller, Michael. *The United States and China: Into the Twenty-First Century*. 3rd ed. New York: Oxford University Press, 2002.
- Shirk, Susan. *China: Fragile Superpower*. Oxford: Oxford University Press, 2007.
- Stubbs, Richard. "'War Makes States' in East Asia: The Origins of the Strong State in Asia's 'Miracle' Economies." Paper presented at the International Studies Association Conference, Montreal, March 17- 20, 2004.
- Taylor, Alan. "Rising Protests in China," *Atlantic*, February 17, 2012,  
<http://www.theatlantic.com/infocus/2012/2/rising-protests-in-china/100247/>

- The Economist. "China's ruling CCP Looks to Clean Up Its Act in Macau." *The Economist*, May 7, 2013. Accessed January 10, 2016.  
<http://country.eiu.com/article.aspx?articleid=1720471756&Country=Macau&topic=Politics&subtopic=Forecast&subsubtopic=Political+stability&u=1&pid=603758444&oid=603758444&uid=1>
- U.S. State Department. *Foreign Relations of the United States*, 1951, Volume VII. Washington DC: Government Printing Office, 1983.
- . *Foreign Relations of the United States*, 1952–54, Volume XIV. Washington DC: Government Printing Office, 1983.
- Wade, Robert. "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence." *World Politics* 44, no. 02 (1992).
- Whyte, Martin King. "Inequality and Stratification in China." *China Quarterly* 64 (1975): 684–711.
- . *Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China*. Stanford: Stanford University Press, 2010.
- Wong, Edward, and Chris Buckley. "Stock Market Plunge in China Dents Communist Party's Stature." *New York Times*, July 9, 2015. Accessed January 15, 2016.  
[http://www.nytimes.com/2015/07/10/world/asia/china-stock-market-crash-communist-xi-jinping.html?\\_r=1](http://www.nytimes.com/2015/07/10/world/asia/china-stock-market-crash-communist-xi-jinping.html?_r=1).
- World Bank. "Data: Inflation, Consumer Prices, 2009–2013." Accessed January 15, 2016. <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>.
- . "Wealth Accounting (2015)." *GNI per capita, Atlas method* [Data file]. Retrieved from <http://data.worldbank.org/data-catalog/wealth-accounting>.
- . "World Development Report 1988." 1988.
- Zhou, Xiaohong, and Qin Chen. "Globalization and China's Middle Class," in *China's Emerging Middle Class: Beyond Economic Transformation*, edited by Cheng Li, 84–103. Washington: Brookings Institution Press, 2010.
- Zweig, David. "China's Political Economy." In *Politics in China: An Introduction*, edited by William A. Joseph, 254–292. New York: Oxford University Press, 2014.

## **INITIAL DISTRIBUTION LIST**

1. Defense Technical Information Center  
Ft. Belvoir, Virginia
2. Dudley Knox Library  
Naval Postgraduate School  
Monterey, California